

GENERAL OVERSIGHT ON PATENT AND TRADEMARK ISSUES

HEARING BEFORE THE SUBCOMMITTEE ON PATENTS, COPYRIGHTS AND TRADEMARKS OF THE COMMITTEE ON THE JUDICIARY UNITED STATES SENATE ONE HUNDREDTH CONGRESS FIRST SESSION ON

THE IMPORTANCE OF THE PROTECTION OF INTELLECTUAL PROPERTY
AND ITS RELATION TO PROSPERITY AND SECURITY OF THE UNITED
STATES

FEBRUARY 17, 1987

Serial No. J-100-2

Printed for the use of the Committee on the Judiciary



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1987

73-358

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

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GENERAL OVERSIGHT ON PATENT AND TRADEMARK ISSUES

TUESDAY, FEBRUARY 17, 1987

U.S. SENATE,
COMMITTEE ON THE JUDICIARY,
SUBCOMMITTEE ON PATENTS, COPYRIGHTS AND TRADEMARKS,
Washington, DC.

The subcommittee met, pursuant to notice, at 11:03 a.m., in room SD-226, Dirksen Senate Office Building, Hon. Dennis DeConcini (chairman of the subcommittee) presiding.

Also present: Senators Hatch, Grassley, and Heflin.

Staff present: Ed Baxter, chief counsel; Tara McMahon, counsel; and Cecilia Swensen, legislative aide.

OPENING STATEMENT OF HON. DENNIS DeCONCINI, A U.S. SENATOR FROM THE STATE OF ARIZONA

Senator DeConcini. The subcommittee will come to order. I am very pleased to be chairing this first hearing of the Subcommittee on Patents, Copyrights and Trademarks of the 100th Congress. I follow in the footsteps of a friend and colleague of mine who I think made a significant contribution in this area, Senator Mathias, of Maryland. I know that Senator Mathias made himself available to interested parties here, was a dedicated public servant and an outstanding chairman of this subcommittee, and I intend to attempt to follow in that tradition.

Also the ranking member, Senator Leahy, played a significant part in some of the legislation that was guided through the subcommittee.

This subcommittee was created in 1983, in recognition of the importance of the protection of intellectual property and its relation to prosperity and security of the United States. Today, more than ever before, maintaining our country's intellectual property assets is a crucial step to furthering our competitive edge.

Intellectual piracy is costing U.S. business an estimated \$8 to \$20 billion a year. This counterfeiting and copying of American inventions and scientific discoveries must be stopped if we are to keep our leadership position.

Subcommittee initiatives which will contribute to the overall effort of improving America's trade and competitive position deserve our attention. And we will play an active role in the intellectual property provisions of the omnibus trade bill. The intellectual property problems we face exist on both the domestic and international plane. We must determine not only where we lack protection

abroad, but also where our enforcement is inadequate at home, where our internal operations are deficient and where our U.S. laws have not kept up with rapidly emerging new technologies.

I look forward to hearing the testimony of today's expert witnesses as they confront these questions and identify the areas which they view as most important.

[The prepared statement of Senator DeConcini follows:]

PREPARED STATEMENT OF SENATOR DENNIS DECONCINI

I am extremely pleased to be chairing this first hearing of the Subcommittee on Patents, Copyrights and Trademarks of the 100th Congress. I follow in the footsteps of the Honorable Charles Mathias, now retired Senator from the State of Maryland, who made a significant contribution to this complex area of law during his chairmanship. Senator Mathias was known for making himself available to a wide range of groups and individuals having an interest in intellectual property rights. I intend to follow that tradition.

This subcommittee was created in 1983 in recognition of the importance of the protection of intellectual property and its relation to prosperity and security of the United States. Today, more than ever before, maintaining our country's intellectual property assets is a crucial step to furthering our competitive edge.

Intellectual piracy is costing U.S. business an estimated \$8 to \$20 billion a year. This counterfeiting and copying of America's inventions and scientific discoveries must be stopped if we are to keep our leadership position. Subcommittee initiatives which will contribute to the overall effort of improving America's trade and competitive position deserve our immediate attention. This subcommittee will also play an active role in the intellectual property provisions of the omnibus trade bill.

The intellectual property problems we face exist on both the domestic and international plane. We must determine not only where we lack protection abroad. But also where our enforcement is inadequate at home, where our internal operations are deficient, and where our U.S. laws have not kept up with rapidly emerging new technologies. I look forward to hearing the testimony to today's expert witnesses as they confront these questions and identify the areas which they view as most pressing.

This is the first of a series of hearings that will begin to address specific legislation and oversight of the Patent and Trademark Office. We will have the opportunity to hear from many witnesses on all sides of the issues. I know my colleagues share my concern and enthusiasm for the challenges that lie ahead and that they will be eager to join with me in meeting them. Thank you.

Senator DECONCINI. This is the first of a series of hearings we will be conducting. Both Senator Hatch and I serve on the Intelligence Committee, which is having the confirmation hearings right now for Mr. Gates, and that is why we postponed this hearing for 1 hour. We will go until 12:30 today. I want to be sure that the witnesses and those who are interested in this subject matter, that though time is a bit short today, we will have opportunity to hear from anyone who we did not secure enough information from, and my staff will be available to set additional hearings as we oversight and learn more about this very important area.

I want to welcome the ranking minority member, former chairman of a number of committees who I have had the pleasure of serving with for 10 years in the U.S. Senate, and on the Judiciary Committee. He is a real leader in legislative initiative, my good friend from Utah, Orrin Hatch.

OPENING STATEMENT OF HON. ORRIN G. HATCH, A U.S. SENATOR
FROM THE STATE OF UTAH

Senator HATCH. Thank you, Mr. Chairman. I could not be more pleased to serve with anybody in the Senate than I am to serve

with you on this committee. I think it is an extremely important committee, it means a lot to this country, a lot to the future of our country, and at the outset of this hearing I just want to commend you, Senator DeConcini, especially to undertake the significant responsibilities of chairing this very important subcommittee.

I know that Senator DeConcini is one of the Senate's most respected legislative leaders, and I certainly respect him. I look forward to working with you and I am sure that our work together will be a very productive partnership for the future intellectual property laws.

With the 100th Congress barely under way and the Bicentennial of the 1787 Constitutional Convention only months away, I remember particularly that Senator DeConcini and I were the authors of the law which created the Federal Commission to commemorate this great historic event. Accordingly, on the occasion of the first hearing of this subcommittee in this historic Congress, it seems appropriate to remember that the Constitution itself grants Congress the authority to regulate intellectual property. Article I, section 8, specifically authorizes Congress to "promote the progress of science and useful arts by securing for limited times to authors and inventors exclusive right to their respective writings and discoveries."

While the anti-Federalists of 1787 hotly contended that many powers granted to Congress were better left to the States, there seems to have been nearly universal acceptance of national regulation of intellectual property. Madison explained very simply the basis for our current patent and copyright protections. He said:

The copyright of authors has been solemnly adjudged in Great Britain to be a right of common law. The right to useful inventions seems with equal reason to belong to the inventors. The public good fully coincides in both cases with the claims of individuals.

To this, I would only add that the trademark protections based on Congress' power to regulate commerce likewise harmonized the public good with the claims of individuals. Little did the authors of the Constitution realize that the tiny country they established would one day be the world's leading trade nation. With the growth of international trade as well as domestic competition, intellectual property protections have taken on even greater significance.

In particular, the development of new technologies and new uses for established products will challenge this subcommittee to assure that our laws continue to protect the public good by respecting the claims of individuals.

So I would like to welcome our witnesses here today. I would like to carefully consider their advice on how we can best accomplish this subcommittee's mission. I have to tell you, Mr. Chairman, as you mention, we are in the confirmation hearings of Mr. Gates downstairs and I will probably have to leave shortly to go back to those hearings. I want to again congratulate you, as chairman of this subcommittee, and just tell you how much I look forward to working with you, as I always have.

[The prepared statement of Senator Hatch follows:]

PREPARED STATEMENT OF SENATOR ORRIN G. HATCH

At the outset of this hearing, I would like to commend Senator DeConcini as he undertakes the significant responsibilities of chairing this important subcommittee. I know Senator DeConcini is one of the Senate's most respected and thoughtful members. I look forward to working with him in what I am sure will be a very productive partnership for the future of intellectual property laws.

With the 100th Congress barely under way and the bicentennial of the 1787 Constitutional Convention only months away, I remember in particular that Senator DeConcini and I were the authors of the law which created a federal commission to commemorate this great historic event. Accordingly, on the occasion of the first hearing of this subcommittee in this historic Congress, it seems appropriate to remember that the Constitution itself grants Congress the authority to regulate intellectual property. Article I, section 8, specifically authorizes Congress to "promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

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Little did the authors of the Constitution realize that the tiny country they established would one day be the world's leading trade nation. With the growth of international trade as well as domestic competition, intellectual property protections have taken on great significance. In particular, the development of new technologies and new uses for established products will challenge this subcommittee to ensure that our laws continue to protect the public good by respecting the claims of individuals.

I welcome our witnesses and will carefully consider their advice on how we can best accomplish this subcommittee's mission.

Senator DeConcini. Senator Hatch, thank you very much, and I understand the necessity to get back to those hearings. I have a desire to do that, too, but I feel, as you do, that what we are doing today is the beginning of a very important step. We talked about doing some oversight and, quite frankly, some educational process hopefully on both sides.

Our first panel this morning is the Commissioner of the U.S. Patents and Trademarks Office, Donald Quigg. Commissioner Quigg has served as the Assistant Secretary in the Department of Commerce and as Commissioner since 1985. He joined the Commerce Department, I am advised, in 1981 as Deputy Commissioner, and before that was in private practice as a patent counsel.

Joining Commissioner Quigg on the panel is Norman Latker, the Director of Federal Technology Management Policy Division, Office of Productivity, Technology and Innovation at the U.S. Department of Commerce. This is a very significant and important position. Many people do not know it even exists, Mr. Latker, I am sorry to say. I was talking with someone—I will not tell you what State it was, but it is a State that I spend a lot of time in—explaining what this subcommittee is about and there were a tremendous amount of questions about, some of the offices. They heard of yours, Mr. Quigg, but they had never heard of yours, Mr. Latker, and these are people in the business world. So I think we have an opportunity here to educate ourselves and to help explain some of the technology problems and how they relate to the U.S. productivity.

So I will open the panel with only this admonition: Because of time constraints, your full statements will be inserted in the record and, if you can keep your oral presentations to 5 minutes, it will be very helpful, as we do have some questions.

Senator HATCH. Mr. Chairman, I also would like to welcome Mr. Quigg and Mr. Latker here. I appreciate them coming and I would like to submit questions for them if they could answer.

Senator DECONCINI. Without objection, the questions will be submitted.

Senator HATCH. Thank you, Mr. Chairman.

Senator DECONCINI. Thank you, Senator Hatch.

Mr. Quigg?

PANEL CONSISTING OF DONALD J. QUIGG, COMMISSIONER OF PATENTS AND TRADEMARKS, U.S. DEPARTMENT OF COMMERCE; AND NORMAN J. LATKER, DIRECTOR, FEDERAL TECHNOLOGY MANAGEMENT POLICY DIVISION, OFFICE OF PRODUCTIVITY, TECHNOLOGY AND INNOVATION, U.S. DEPARTMENT OF COMMERCE

Mr. QUIGG. Thank you, Mr. Chairman and Senator Hatch. I appreciate this opportunity to appear before this subcommittee and I will summarize my statement, with the understanding that the entire statement will be included in the record.

Senator DECONCINI. It will so appear.

Mr. QUIGG. In 1981, we reported to Congress that our Office was not serving the needs of inventors and the industry adequately. The administration made a commitment to turn things around through an aggressive three-point plan, with specific goals.

We have made significant progress in meeting these goals. In 1984, we started to dispose of more patent applications each year than we received. In 1986, we received 131,403 patent applications, which was a record number. We also disposed of 139,203 applications which was also a record number. Thus, we have been able to keep on track toward reducing pendency time, while maintaining quality.

We met our goal of processing trademark applications in 13 months in 1985, and we are maintaining it at the present time.

In 1986, we received 69,253 trademark applications and disposed of 68,916 applications. We have deployed an automation system for searching our trademark records and have begun testing an automated system for searching our patent records.

In your letter of invitation, you raised a question regarding the caseload and structure of the Board of Patent Appeals and Interferences. The caseload of the Board has increased largely because of the record number of appeals that are being filed. This is a direct result of an increased number of patent applications being processed by the Patent Examining Corps.

To reduce this caseload, the President's budget contains a request for 14 additional examiners-in-chief and 5 support personnel in fiscal year 1988.

You also expressed an interest in the operation of our rule 56 on the duty of disclosure. This rule requires applicants and other individuals substantively involved in the prosecution of a patent appli-

cation to disclose to the PTO any information that a reasonable patent examiner would be likely to consider important in deciding whether to issue the application as a patent.

While the number of applications investigated is not large—only 0.2 percent of all applications—the presence of the rule, the potential for investigations in appropriate circumstances results in the disclosure of much more prior art than would otherwise be available to the examiner and strengthens the patents we issue.

I am particularly proud of our progress in the automation area. On August 18, 1986, we began requiring all trademark examining attorneys to use an in-house automated search system known as T-Search in the examination of trademark applications containing word marks, and we plan to require its use for searching design marks later this year.

We received the first dual-screen work station for patent searching and have initiated testing. Digitized images, including drawings of about 150,000 U.S. patents have been captured on optical disks and will be accessed from the work stations. We intend to load selected foreign patent documents into our system.

While the preliminary results have been very encouraging, the final results will be evaluated carefully by the PTO and the Department of Commerce before each deployment decision is made.

One of the most significant international developments is the recent heightened global interest in harmonizing certain aspects of national patent laws. We are considering proposals in several fora that would require dramatic changes in the patent laws of the United States. These proposals raise fundamental issues such as whether we should grant patents to rival inventors on the basis of who was first to invent or who was first to file a patent application and whether there should be any permissible exclusions from patentable subject matter.

To provide direction in this undertaking, we have developed a proposed harmonization outline for some 18 significant provisions of national patent laws that are conducive to harmonization. The outline is on a chart that is appended to my prepared statement.

I believe it is important to begin to develop a consensus in the United States on what our goals should be. I anticipate that we will be discussing that topic with the subcommittee in the future.

The President, in his competitiveness initiative, has established a national goal of assuring American competitive preeminence into the 21st century. A portion of the package includes amendments to the antitrust and patent laws to promote licensing of patented technology, to increase process patent protection to the same level as that accorded by our major trading partners, to restore the term of "agricultural and animal drug patents" to compensate for Federal premarketing regulatory delays, to make section 337 proceedings more effective, and to reduce the amount and cost of litigation.

It also proposes a technological solution to prevent unauthorized copying of copyrighted sound recordings on the new digital audio-tape equipment and commits the administration to develop legislation that would implement the Berne Convention for the Protection of Literary and Artistic Works.

The President also stressed that we must continue reforms for excellence in our schools. Last year, the PTO cosponsored a Nation-

al Conference on Teaching Creative Skills and the Invention Process. The basic idea is to teach children to think analytically. These new educational programs are being initiated throughout the country. I would encourage support for these programs.

Thank you, Mr. Chairman. I would be pleased to answer any questions you might have.

[Submissions of Mr. Quigg follow:]

STATEMENT OF
DONALD J. QUIGG
ASSISTANT SECRETARY AND COMMISSIONER
OF PATENTS AND TRADEMARKS

Mr. Chairman and Members of the Subcommittee:

Thank you for this opportunity to appear before this Subcommittee. My prepared statement addresses three areas: 1) a review of our programs to upgrade and improve the services of the U.S. Patent and Trademark Office to industry and inventors, 2) a summary of our international activities, and 3) an outline of our legislative program for the 100th Congress.

If you will permit me I would like to place our current operations into context with a brief comment on where we began. In 1981, we reported to the Congress that the Patent and Trademark Office was not serving the needs of inventors and industry adequately -- the time it took to obtain a patent or a trademark registration was too long and the quality of our services was too low. We were using antiquated techniques to deal with state-of-the-art technology. The Administration has made a commitment to turn things around at the Patent and Trademark Office through an aggressive three-point plan:

- To reduce the average time it takes to get a patent to 18 months by 1987 (Plan 18/87);
- To register trademarks in 13 months by the end of 1985, with an opinion on registrability being given to an applicant in three months (Plan 3/13); and
- To take aggressive steps toward automation of our operations by the 1990's.

We have made significant progress in meeting these goals. In 1984, we started to dispose of more patent applications each year than we received. However, it was necessary to adjust our 19/87

goal in 1986 due primarily to the increased filing of applications. We met our 3/13 goal in 1985 and are maintaining it. We have deployed an automated system for searching our trademark records and have begun testing an automated system for searching our patent records, that is larger and more complex than the trademark system. Also, we are now in the process of replacing the computers that support virtually all of our daily operations.

The key to achieving these goals was to increase user fees to realistic levels. This was accomplished with the enactment of Public Law 97-247 in August 1982. That law also authorized the Office to retain and use those fees, together with appropriated monies, to finance our total program level.

The FY 1987 budget calls for a program level of \$231,812,000. Of that amount, \$98,000,000 is from appropriated funds, \$1,985,000 is from 1986 deferred funds, and \$131,827,000 is from user fees. For FY 1988, the President has requested a program level of \$282,320,000, with \$135,542,000 of that amount to be appropriated. The requested level represents an increase of \$50,508,000 over 1987. A portion of the 1988 increase will cover increased costs, such as salaries and benefits and services. To cope with the increasing number of patent applications, we need more examiners and support staff than was projected in earlier budget estimates. Also, we requested 19 new positions on our Board of Patent Appeals and Interferences to stem the growing backlog of cases there. The request also includes a program increase of \$23,501,000 for our automation programs.

Public Law 99-607, the PTO authorization for FY 1986-1988, requires that a detailed report on PTO finances be forwarded to the Committees on the Judiciary. The report is being prepared and will soon be transmitted to the Committees. It will include not only information on income from all sources, but will provide specific information on how we spend our resources, including fees.

Patents

In fiscal year 1986, a record 121,611 utility, plant, and reissue

patent applications were received, up by over 5,000 from the previous record set in FY 1985. In addition, 9,792 design patent applications were received. In FY 1987, we expect to receive 123,000 applications, excluding designs. Our examiners disposed of 130,072 utility, plant, and reissue applications in FY 1986, an increase of approximately 10,000 cases above the previous year. The total utility, plant, and reissue patents that issued was 71,791.

At the end of FY 1986, average pendency time was 22 months for utility, plant, and reissue patents, a reduction of 1.2 months from 1985. This year we plan to reduce the pendency period to 19.7 months. Our goal was to reduce this period to 18 months by the end of this fiscal year. However, due primarily to significantly increased filings, we have had to depart slightly from our goal. We now plan to reach the 18-month pendency time by FY 1989. We chose this course so that we could maintain a proper balance between the quality improvements that we seek through the automation program and the productivity improvements flowing from the reduced pendency reduction period.

In your invitation, you raised a question regarding the caseload and structure of the Board of Patent Appeals and Interferences. The caseload and pendency period of matters before the Board has increased. The Board currently has a Chairman and a Vice Chairman and 42 authorized examiner-in-chief positions.

Decisions on all matters coming before the Board are normally decided by panels consisting of three members. Any panel may include the Chairman or Vice Chairman. Typically, 36 examiners-in-chief are assigned to panels hearing ex parte appeals from patent examiners' decisions refusing to issue a patent. In addition, six are assigned to panels in inter partes proceedings (1) to determine which of two or more rival inventors was the first to invent the subject matter for which a patent is sought, (2) to decide questions of patentability which may arise during these proceedings to determine who is the first inventor, and (3) to determine property rights in inventions between inventors and the United States Government.

There were 7,018 ex parte appeals pending at the Board at the beginning of FY 1986. During that year, the Board received a record number of 4,980 appeals from the decisions of patent examiners. The total number of appeal decisions written by the Board during the year was 3,514. An additional 247 appeals were either dismissed by the Board or were withdrawn by the applicant, leaving a balance of 8,237 appeals pending at the end of FY 1986. Also, there were 320 inter partes proceedings pending before the Board at the beginning of FY 1986. During that year, 166 proceedings were commenced, and 184 were terminated, leaving 302 inter partes proceedings pending at year's end.

The increase in the number of ex parte appeals pending before the Board was largely caused by the record number of appeals being filed. This is a direct result of the increased number of patent applications being processed by the patent examining corps. Another factor that contributes is the turnover of personnel at the Board. In FY 1986, ten highly experienced examiners-in-chief retired or resigned. While we have replaced them, we had a loss of productivity.

To reduce this backlog, the President's Budget contains a request for 14 additional examiners-in-chief and five support personnel in FY 1988. In addition, the Office is considering modifying its rules of practice and improving its processing techniques to enable the Board to process appeals more efficiently. We believe these actions will enable us to reduce the backlog while maintaining the quality of the Board's decisions.

You also expressed an interest in the operation of our Rule 56 on the duty of disclosure. The duty of candor and good faith toward the PTO that is placed on the inventor and others substantively involved in the preparation and prosecution of patent applications has long been recognized by the courts as an essential requirement for a quality patent and for the efficient operation of the PTO and the patent system. Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co., 324

U.S. 806, 65 USPQ 133 (1945). The Court of Appeals for the Federal Circuit has held that our Rule 56 (37 CFR 1.56) "essentially represents a codification of the 'clean hands' maxim as applied to patent applicants." Driscoll v. Cebalo, 221 USPQ 745, 750, 751 (CAFC 1984). This Rule was promulgated under the Commissioner's authority to manage the affairs of the Office and to conduct the examination of patent applications (35 U.S.C. §§6, 131, and 132).

This Rule requires applicants, their attorneys, and other individuals substantively involved in the prosecution of a patent application to disclose to the PTO any material information. Information is material when there is a substantial likelihood that a reasonable patent examiner would consider it important in deciding whether to issue the application as a patent. This helps ensure that we have the best information available on which to make decisions so that we will not issue invalid patents.

Also, an applicant in a particular application is required to submit a signed oath or declaration identifying all the inventors, stating he or she has reviewed the application, believes each named inventor to be the first inventor(s), acknowledges the duty to disclose, and identifies foreign applications on which priority is based. Irregularities in preparation and signing of the oath or declaration, such as signing a blank form and signing without reviewing the application, are also violations of the Rule.

To withhold material information intentionally or to fail to disclose material information through gross negligence would violate the duty of candor embodied in the Rule. If applicants are deemed to violate this Rule, the Commissioner may reject all of the claims in the application which may preclude issuance of a patent, or strike the application from our files.

Material information that was not disclosed in the application or other violations may be discovered by the examiner in prosecution of the application or a reissue application, or be brought to our attention by co-inventors or third parties. Any person having

this information may file a protest or may petition the Commissioner to strike the application or the Office may initiate an investigation. Resolution of these issues is the responsibility of the Assistant Commissioner for Patents and is primarily handled by his Special Program Examination Unit.

Applications identified as possibly involving a violation of Rule 56 represent a very small fraction of all applications. In FY 1986, only 249 applications were, for the first time, identified as possibly involving a violation. This number of identified applications represents only 0.2 percent of the 131,403 utility, plant, reissue, and design applications filed during the year. Also during that year, the PTO disposed of 210 applications involving a Rule 56 issue. Of these, 132 were abandoned, 75 applications were found to have no actionable violation, and three were disposed of by the Board. Of the abandoned applications, nine were abandoned after they had been rejected for a violation and the remainder, 123, were abandoned before consideration of the Rule 56 issue had commenced or at an early stage in that consideration. While the number of applications investigated is not large, the presence of the Rule and the potential for investigations in appropriate circumstances results in the disclosure of much more prior art than would otherwise be available to the examiner and avoids the issuance of invalid patents.

Trademarks

We received 69,253 applications for Federal trademark registration in FY 1986, and expect to receive 70,800 applications this year. Our trademark examiners disposed of 68,916 applications in FY 1986. While continuing to stress our 3/13 goal, we are stressing equally improving the quality of trademark registrations. We are improving our procedures for reviewing approved applications before we publish them for opposition. We are also improving our Legal Lecture Series and our Continuing Legal Education Program to keep examiners up-to-date on the law. We

are also expanding examiner participation in trade shows and exhibitions relating to the areas in which they examine.

During this year, we plan to initiate a new quality program in the trademark operation. A small sample of approved applications will be searched a second time by a different examining attorney using both the paper and automated search files. This will indicate the relative quality of these files and whether legal standards are being applied correctly and consistently.

Automating the Patent and Trademark Office

I am particularly proud of our progress in the automation area. We plan to publish the third edition of our "Automation Master Plan" in the near future and forward it to this Subcommittee, other Committees, and our constituent groups. It will describe our accomplishments, include automation schedules that have been adjusted to reflect the current status and expectations, and will identify the key deployment decisions that will be reported to the Congress pursuant to Public Law 99-607. The Plan will also take into account the views expressed by various Federal and private organizations. The PTO will strive to provide a timely and effective exchange of information on the automated patent and trademark systems with these organizations.

Quality of the trademark process has been improved through the use of existing systems. On April 2, 1985, the first trademark Official Gazette was produced utilizing an in-house computer photocomposition process using TRAM (the Trademark Registration and Application Monitoring System). On August 18, 1986, we began requiring all trademark examining attorneys to use an in-house automated search system known as T-Search in the examination of trademark applications containing word marks. So far, the system is working quite well. We plan to begin voluntary use of T-Search for searching design marks early this spring and plan to require its use for searching design marks later this year.

While much has been accomplished in automating trademark operations, improvements in system capability, performance, availabi-

lity, and efficiency are required. Many of these improvements will be attained through the Automated Trademark System (ATS) that involves (1) replacing the separate computer mainframes on which TRAM and T-Search operate with a single new, more powerful mainframe with a complete backup system; and (2) eventual integration of the separate TRAM and T-Search data bases to obtain further efficiencies through the elimination of redundant data. Other improvements include system enhancements such as cleaning up the trademark data bases and making software changes or additions to facilitate use of the automated trademark systems. A competitive procurement already has been initiated for the replacement of the current computer systems, with contract award scheduled for June 1987, and installation by March 1988.

Two major steps toward complete patent automation have occurred. First, in February 1986, we completed loading the full-text of all U.S. patents issued since 1975 into the Automated Patent System (APS) ahead of schedule. In August 1986, the PTO and the Department of Commerce decided to deploy 100 standard computer terminals throughout the Office for the examiners to start searching this data base. This deployment will be completed by June. Also, we plan to add the patents issued from 1971 to 1974 to this data base.

Second, we have received the first examiner dual screen workstations for classified search and image retrieval and have initiated the testing of this system in our Group 220 examination area. Digitized images, including drawings, of about 150,000 U.S. patents unique to the Group 220 paper file have been stored on optical disks and will be accessed from the workstation. Beginning next month, examiners can search these electric documents by retrieving groups of technologically related patents, as defined by the U.S. Patent Classification System, and displaying them serially on either one of the workstation's two high resolution screens.

As a result of a Trilateral Agreement among the European Patent

Office, the Japanese Patent Office, and the United States Patent and Trademark Office, we receive image data from both the EPO and JPO in the future. We intend to load selected documents into APS. As a result, we will be able to access quickly and cheaply by computer the majority of the world's patented technology. Searching the foreign patent documents using an expanded international Patent Classification System will begin this spring. In addition to the images, full text searching of U.S. patents issued since 1975 is also available on the workstation.

We are now evaluating the text searching features, the classified search capability, and the image retrieval capabilities. This is a comprehensive evaluation program developed with the continuing help of the Department of Commerce and a special committee of the American Intellectual Property Law Association (AIPLA). The evaluation period has been extended to December 1987, in response to recommendations of various Federal and private organizations such as the AIPLA, the Institute for Computer Sciences and Technology at the National Bureau of Standards, and the General Accounting Office.

While the preliminary results have been very encouraging, the final results will be evaluated carefully by the PTO and the Department of Commerce before each deployment decision is made. Upon completion of a successful evaluation of the test Group, searching of the electronic text and facsimile images will be deployed using terminal clusters shared by the examiners. A digital facsimile of every available patent from 1790 to the present will be stored on optical disks. Workstation installation and cut-over to the automated system will be done on a floor-by-floor basis, and will require about two years to complete. The Administration is committed to achieving full automation by the 1990s.

I would also like to note that the President has directed the Office to make our automated technology files available as a research tool to businesses and universities as part of his com-

petitiveness initiative. These files will include the full text of U.S. patents and English-language abstracts of Japanese and European patent documents. This will be accomplished through private industry or regional search centers.

International Activities

One of the most significant international developments involving intellectual property laws is the recent heightened global interest in harmonizing certain aspects of national patent laws. The goal of these efforts is to facilitate protection of inventions in several countries through establishing uniform procedures and standards for protection. This is part of the program set forth in the Administration Statement on the Protection of U.S. Intellectual Property Rights Abroad. We have become engaged in harmonization discussions in the trilateral arrangement with the JPO and the EPO, in a series of meetings specifically convened on this topic by the World Intellectual Property Organization, and, to a degree, in our work with USTR in connection with the new trade round negotiations in the General Agreement on Tariffs and Trade.

We are considering a number of proposals that would require dramatic changes in the patent laws of the United States. These proposals raise important issues such as whether we should grant patents to rival inventors on the basis of who was first-to-invent or who was first-to-file a patent application; what should be permissible exclusions from patentable subject matter; what should be the term for patent protection; and how should process patent protection be extended to cover the resulting products. Because of the far-reaching consequences of these proposals, we hosted a day-long discussion of all of these issues in December of last year. Members of the bar and Administration officials attended. We were particularly pleased that several Congressional staff members participated, including your former staff member, Bob Feldler.

In view of the different fora considering harmonization of patent

laws and the conflicting notions about the best direction to go, we developed in the Patent and Trademark Office a chart identifying 18 significant provisions of national patent laws that are conducive to harmonization. In this chart, we compared these provisions in the laws of the United States, Japan, and the European Patent Convention because they represent the major international players in the field of patents. On the basis of this comparison, we then developed a proposed harmonization outline. The chart is appended to my prepared statement. I believe it is important to begin to develop a consensus in the United States on what our goals should be as well as suggesting to our major trading partners the direction that we should go.

The appended chart was discussed at our December meeting with interested members of industry and the bar and was revised on the basis of those discussions. It has also been shared with the Japanese and European Patent Office officials. I anticipate that we will be discussing this topic with the members of this Subcommittee often in the future.

Also, we participate in the twelve-year old effort to revise the Paris Convention for the Protection of Industrial Property. Perhaps the single most important issue in these negotiations has been the question of what sanctions should a country be able to apply in the case of non-working of a patent. The developing countries have argued for a compulsory exclusive license, a draconian measure which the United States has strongly opposed.

At a Third Session of a Diplomatic Conference to revise the treaty in 1983, a proposed compromise was negotiated in response to the developing countries' demands for the right to grant compulsory exclusive licenses. However, the compromise was not accepted at a Fourth Session in 1984. In light of this stalemate, it was agreed to postpone a Fifth Session until prospects for positive results were found. To seek such prospects, a series of consultative meetings were scheduled. We have just returned from the second consultative meeting held in Geneva late last month, where the developing countries modified their demands

with a new proposal. We are in the process of obtaining the views of our industry on this proposal and evaluating it in light of their comments.

In addition to working multilaterally, our Office has been quite active bilaterally in improving intellectual property protection for U.S. nationals, and supporting a major goal of the Department of Commerce -- to increase America's competitiveness in the world economy. To accomplish this end we have participated in government-to-government discussions, participated in legal and technical seminars, and conducted training programs for developing country nationals.

Legislative Activities in the 100th Congress

The President, in his Competitiveness Initiative, has established a national goal of assuring American competitive preeminence into the 21st Century. Part of this initiative is to increase protection for intellectual property by seeking enactment of Omnibus Intellectual Property Reform legislation. A portion of the package includes amendments to the antitrust and patent laws to promote licensing of patented technology, to increase process patent protection to the same level as that accorded by our major trading partners, to restore the term of agricultural and animal drug patents to compensate for Federal premarketing regulatory delays, to make section 337 proceedings more effective by eliminating the requirement to prove injury to a domestic industry when intellectual property infringement is involved, and to reduce the amount and cost of litigation.

The Competitiveness Initiative not only includes proposals to overcome perceived deficiencies in present law, but also includes recommendations to take care of problems that will appear in the near future and other matters that are in America's long-term interests. These include proposing a technological solution to prevent unauthorized copying of copyrighted sound recordings on the new digital audio tape equipment and committing the Administration to develop legislation that would implement the

Berne Convention for the Protection of Literary and Artistic Works.

The President, in his Competitiveness Initiative, also stressed that we must continue reforms for excellence in our schools. I also believe that the very roots of our "technological lag" are in our education programs and have done all I can to encourage development of new, innovative school programs.

Last year, the PTO cosponsored a national conference on "Teaching Creative Skills and the Invention Process." The basic idea is to teach children to think analytically. The process of developing their ideas is integrated into all aspects of the basic curriculum. These new educational programs are being initiated throughout the country. We are teaching tomorrow's inventors. I would encourage support for these programs.

Thank you Mr. Chairman. I would be pleased to answer any questions.

U.S. System		EPC System		Japanese System		Proposed Harmonization	
1. First to invent system (first to file in U.S. or foreign invention date)		1. First to file system		1. First to file system		1. First to file system	
2. No assignee filing		2. Assignee filing		2. Assignee filing		2. Assignee filing	
3. One year grace period prior to U.S. filing date		3. Limited 6-month grace period prior to European filing date		3. Limited 6-month grace period prior to national filing date		3. One-year grace period prior to the convention priority date	
4. Whole contents prior art effect from domestic filing date		4. Whole contents prior art effect from convention filing date		4. Whole contents prior art effect from convention filing date		4. Whole contents prior art effect from convention filing date	
a) Secret prior art for novelty		a) Secret prior art for novelty		a) Secret prior art for novelty		a) Secret prior art for novelty	
b) Secret prior art for obviousness		b) No secret prior art for obv.		b) No secret prior art for obv.		b) No secret prior art for obv.	
5. Objective test for nonobviousness		5. "Problem and solution" analysis as part of nonobviousness test		5. "Meritorious effect" test in addition to nonobviousness test		5. Objective test for nonobviousness	
6. Liberal amendment practice, including after final rejection and after allowance		6. Strict amendment practice		6. Restrictive amendment practice		6. Subst. amts. up to allowance; restrictive amendments after final fee if permitted by examiner	
7. Permit any number of independent and dependent claims, separately enforceable. Permit means plus function claims		7. Strict claim form, but liberal claiming practice, including dependent claims referring to other dependent claims		7. Limitations in claiming practice		7. Permit any number of independent and dependent claims, separately enforceable. Permit means plus function claims	
8. Peripheral claiming practice (Notes and bounds)		8. "Characterized by" claiming practice		8. "Characterized by" claiming practice		8. Peripheral claiming practice (Notes and bounds)	
9. Broad claim interpretation		9. Learning to broad claim interpre.		9. Narrow claim interpretation		9. Broad claim interpretation	
10. Broad scope of patentable subject matter		10. Somewhat limited scope of patentable subject matter		10. Somewhat limited scope of patentable subject matter		10. Broad scope of patentable subject matter	
11. Product not protected by process claim		11. Product protected by process claim		11. Product protected by process claim		11. Product protected by process claim	
12. No deferred examination		12. Deferred examination (up to 18 months after publication of search report)		12. Deferred examination (seven years from filing date)		12. No deferred examination	
13. No time limitation on prior art to invalidate patent		13. No time limitation on prior art to invalidate patent		13. Five-year limitation on prior art for patent invalidity		13. No time limitation on prior art to invalidate patent	
14. Post-grant reexamination		14. Post-grant opposition		14. Pre- and post-issue opposition		14. Post-grant reexamination	
15. Application filed in any language; later English translation freely correctable. No new matter		15. Appl. filed in lang. of nat'l. of inv.; later English translation into off. lang.; correctable transl. into off. lang. No new matter		15. Applications must be filed in Japanese.		15. Application filed in any language. Later English translation freely correctable. No new matter	
16. Patent term extended for some products subject to premarket review		16. No patent term extension		16. No patent term extension		16. Patent term extended for some products subject to premarket review	
17. Single 17-year patent term without regard to filing date		17. Patent term: 20 years from filing date		17. Term: 15 years from publication, not to exceed 20 yrs. from filing		17. Maximum term, 20 years from filing; guaranteed minimum term	
18. No 18-month publication		18. 18-month publication		18. 18-month publication		18. 18-month publication w/interim etc. (Applicant entitled to prevent this publication.)	



**UNITED STATES DEPARTMENT OF COMMERCE
Patent and Trademark Office**

ASSISTANT SECRETARY AND COMMISSIONER
OF PATENTS AND TRADEMARKS
Washington, D.C. 20231

Honorable Dennis DeConcini
Chairman, Subcommittee on Patents,
Copyrights and Trademarks
Committee on the Judiciary
United States Senate
Washington, DC 20515

Dear Mr. Chairman:

Thank you for your letter forwarding Supplemental Questions resulting from the General Oversight hearing. The answers to those Questions are attached.

You mentioned that you would be interested in additional materials in that letter. In this regard, we are also enclosing a recent letter from CBEMA that discusses the Lubrizol decision where a technology license was terminated during bankruptcy proceedings. I am concerned that this decision may deter technology licensing. We plan to investigate the effect of this decision and, if appropriate, suggest a remedy.

Sincerely,

Donald J. Quigg
Assistant Secretary and Commissioner
of Patents and Trademarks

Attachments

cc: Senator Hatch

SUPPLEMENTAL QUESTIONS FROM
SENATOR DE CONCINI

1. Question - In your written testimony, you referred to a meeting of bar members and Administration officials last December during which major revisions in the U.S. patent law were discussed. It is my understanding that the overwhelming opinion of those in attendance is that we should begin now to initiate some of those changes which will have the effect of harmonizing the U.S. patent law with that of major industrialized countries and which will greatly improve and simplify our system. What steps is the PTO now prepared to take to support such statutory changes? Have you analyzed any of the specific proposals suggested to you by members of the patent bar?

Answer - As I indicated in my written testimony, we are working toward harmonizing U.S. patent law with that of major industrialized countries. Even though the opinion of bar members at the meeting last December favored movement in that direction, statutory changes cannot successfully be initiated without a great deal of additional work. The meeting in December was essentially exploratory in nature and the specific proposals for harmonization were put forward by the PTO rather than by the attending members of the patent bar. Given the initially favorable reception of these proposals, we are now beginning to build a broader base of support by seeking formal approval for our proposals from industry circles, various bar groups and other associations interested in intellectual property protection. At the same time we are beginning to hold discussions with representatives of industrialized countries that are our major trading partners to explore the possibility of reaching agreement on essential points of difference in our respective patent laws. After agreement with our international trading partners and after obtaining approval from our domestic users of the patent system and support from other interested and legislatively influential circles, we would be prepared to propose specific statutory changes to the patent law. To do otherwise would not serve harmonization internationally and would invite opposition domestically.

2. Question - What is the ultimate objective of the multi-lateral harmonization efforts?

Answer - The ultimate objective of the multilateral harmonization effort is an international patent system which facilitates obtaining strong and effective patent protection for our inventions in a large number of countries. This can only be achieved by making the obtaining of patent protection predictable, rather than subject to different and sometimes arbitrary national requirements. At the same time, it must be clear that a country granting a patent uses strict criteria which assure the patent's validity. These criteria should be the same internationally. Finally, multilateral harmonization should ensure that the enforcement of patents in all countries is fair, strong, and not subject to procedural pitfalls and unreasonably narrow judicial interpretation of a patentee's rights.

3. Question - To the extent these efforts are successful they will limit the ability of member states to modify their patent systems in important respects. This would seem to prevent individual states from experimenting with new features and ideas, such as the Dutch did in the 1960's with deferred examination and early publication. How does the U.S. intend to deal with the problem of international patent ossification which might result from these efforts?

Answer - If an international patent system is strong, effective, predictable and fair, rapid and significant modification may well be unnecessary. Should new and desirable features of patent law be developed, however, there is no reason why they could not be adopted multilaterally in the same fashion as the initial harmonization. I would add that I believe deferred examination is an idea whose time should never have come.

4. Question - The U.S. has "harmonized" its patent laws to an extent through ratification of Chapter II of the Patent Cooperation Treaty. Does the USPTO intend to meet its 1 July deadline for full implementation of PCT Chapter II? What steps are being undertaken to assure the earliest possible use of Chapter II?

Answer - The USPTO intends to meet its July 1, 1987, deadline for the full implementation of PCT Chapter II. Proposed rules to implement Chapter II should be published

in a few days in the Federal Register and later in the Official Gazette for public comment. The development of internal processing procedures necessary to implement Chapter II are near completion. The Department of State plans to notify the World Intellectual Property Organization of the withdrawal of the United States reservation to Chapter II so that Chapter II will become effective in the United States on July 1, 1987.

5. Question - Domestic users of PCT will typically file an early U.S. national application solely to establish priority rights for all international filings under the PCT. The PCT application filed at the end of the Convention year often will designate the U.S. and effectively replace the domestic priority application. What steps is the USPTO taking to assure that resources will not be wasted within the USPTO to process, search and otherwise examine U.S. national applications filed solely as a prelude to PCT filings?

Answer - When an applicant files a U.S. national patent application to establish priority rights, subsequently files a PCT international application for the same subject matter designating the United States and then enters the national stage in the United States with the PCT application, the same examiner will normally work on all three cases. The work already done on any of the three cases is used to the fullest extent possible in working on the others. Therefore, little or no resources are wasted on any of the cases.

6. Question - Many PCT applications will enter the U.S. national phase at 30 months from first filing. Many PCT applicants will enter the U.S. national phase by filing a completely new U.S. application using the continuation-in-part procedure which allows new subject matter to be added to the specification. These "C-I-P" applications must be processed, searched and examined in the course of determining whether, for example, interferences must be declared. For users of the PCT the ultimate resolution of interference contests within the USPTO could take 5 to 6 years. How will the USPTO assure that interferences are declared and decided in a timely manner?

Answer - Where two patent applications are filed claiming the same subject matter, one filed under the PCT using Chapter II where national stage examination of the PCT application or a continuation-in-part (C-I-P) of it cannot start until 30 months from the first filing, a number of steps are available to assure timely resolution of the interference.

Where a national application is ready to issue as a patent but for an interference with the later filed PCT application, the PTO can issue the patent and call the attention of the PCT applicant to the patent so that that applicant may speed the processing of the PCT national stage application and provoke an interference. The non-PCT applicant, of course, may become aware of the PCT application when it is published 18 months after filing. In addition, the USPTO will treat the PCT national stage application special and process it as rapidly as possible once it enters the national stage so that an interference may be declared and resolved as soon as possible. The average time to dispose of an interference, under the procedures instituted in 1985, is about 19 months.

7. Question - Many steps could be taken by the USPTO to improve the quality and completeness of examination. These include opening pending patent applications to public inspection, deferring examination during the PCT Chapter II (30 month) period, unless a specific request is made, and eliminating filing formalities. Does the USPTO plan to propose legislation to accomplish any or all of these changes?

Answer - The PTO has no present plans to propose legislation to implement any of these steps. The USPTO places the highest priority on the quality of examination and is taking other major steps to improve quality as I mentioned in my written and oral testimony. However, none of the steps mentioned in the question would seem to have any significant impact on the quality and completeness of examination. Opening applications to public inspection may deter the filing of patent applications and the disclosure of new technology and subject the applicant to harassing protests that will delay the issuance of a patent. Reexamination presently provides a procedure for citing prior patents and printed publications with a request to the PTO for reexamination of a patent.

Examination of a PCT application in the national stage is already delayed for 30 months. Also, the applicant may now abandon any prior national application filed to establish priority and rely upon a PCT designation of the United States if there is no hurry to get a patent. Further, PCT already provides for an early publication procedure if the applicant desires. The USPTO has initiated harmonization discussions with the Japanese Patent Office and the European Patent Office who have provisions somewhat akin to those mentioned in the question, and is participating in harmonization discussions under WIPO. We will be further considering provisions including the ones mentioned in the question in these discussions.

8. Question - Many patents appear to be issued based upon the filing of a long succession of patent applications over several years. Does the USPTO have any statistics on progress in reducing the average pendency for the invention which would include pendency of any predecessor applications. Would not such a statistic be a more meaningful measure of whether patents were issued promptly? What is the pendency time of a patent application from the real effective date (priority date)?

Answer - The USPTO does not have any statistics on the reduction of the average pendency of inventions or on the pendency time from priority date, which would include the pendency of any predecessor applications. Further, it is questionable whether the 18 month goal should include such time in view of the purpose for which the goal is set and how it is used. When the USPTO goal of 18 months average pendency time was set, it was set with the knowledge that it did not include the pendency time of such predecessor applications which occur only in a small percentage of the cases. The goal, by not taking into account the pendency time of predecessor applications, is more focused on rapid processing within the control of the USPTO. The USPTO has little control over the filing of a series of continuation or C-I-P applications. However, the achievement of the 18 month goal will also reduce the total pendency time of cases where there are predecessor applications. Further, in many cases where a series of applications are filed the first or predecessor application will issue as a patent and disclose the invention to others.

The filing of a series of continuation and continuation-in-part applications is specifically provided for in 35 U.S.C. §120 and divisional applications under §121. There are legitimate needs for filing a series of applications in certain cases. However, we are concerned when the filing of a series of applications represents a lack of diligence in prosecution or examination of an application by an applicant or examiner or when they are used by an applicant to delay the issuance of a patent to extend the time of expiration of patent protection. It is for this reason that I believe, as part of the overall revision of our patent laws for harmonization proposes, we should measure the patent term from the filing date of the first application in a series. However, patent

term extension legislation for human drugs and, if enacted, for agricultural products and animal drugs, does remove some of the incentive to delay the issuance of a patent by the filing of a series of applications.

9. Question - I understand there is an active concern with the patent bar on the operation of your Rule 56 which puts an affirmative duty on applicants to disclose material information to the Office during the course of patent prosecution. My general understanding is that a series of recent decisions by the Court of Appeals for the Federal Circuit have called the operation of this Rule into question. I would appreciate your assessment of this issue.

Answer - We are aware that the patent bar has expressed concerns about certain recent decisions of the Court of Appeals for the Federal Circuit relating to the duty to disclose material information to the USPTO. These decisions, however, do not call into question the operation of Rule 56 setting forth the duty of disclosure but rather support the rule and its application by the USPTO. For example, the Court of Appeals for the Federal Circuit in American Hoist & Derrick Co. v. Sowa & Sons, Inc., 725 F. 2d. 763, 220 USPQ 763, (Fed. Cir. 1984), cert. denied 469 U.S. 821, 224 USPQ 520 (1984) stated:

"[9] The PTO 'standard' is an appropriate starting point for any discussion of materiality, for it appears to be the broadest, thus encompassing the others, and because the materiality boundary most closely aligns with how one ought to conduct business with the PTO."

We are also aware that the patent bar is discussing and developing proposals to amend the patent law and regulations in this area. We have just recently received a copy of some initial resolutions adopted by the AIPPLA and will give these and any additional proposals our fullest consideration.

As I mentioned in my prepared testimony, we believe that the duty of candor and good faith toward the USPTO that is placed on the inventor and others substantively involved in the preparation and prosecution of patent applications is an essential requirement for a quality patent and for the efficient operation of the PTO and the patent system. We are not concerned with the recent decisions of the Court of Appeals for the Federal Circuit in this area as they apply to the specific facts of those cases. We have long recognized in the area of duty of disclosure that when a duty of disclosure question arises, each case must be evaluated on the basis of the relevant facts. No two cases are exactly alike. The degree of both intent and materiality must be weighed in determining whether there is a violation of the duty of disclosure. It is important that all material information be called to the examiner's attention promptly after the applicant becomes aware of it to assure the issuance of a quality patent in the most efficient and timely way. The duty of disclosure requirements is designed to and does, in fact, accomplish this purpose.

10. Question - I have also heard concerns expressed about the resolution by the Office of the case of In Re Dubost. My understanding is that in this case, a clerical error by the attorney for the applicant resulted in the loss by the applicant of any patent protection he may have received. I'm not sure that the overall interest of the patent system is served by allowing procedural errors to defeat substantive patent rights. I would appreciate knowing how common it is that clerical or procedure errors can and do prejudice substantive rights and whether you believe this type of thing should or need not be remedied.

Answer - Since the enactment of Pub. L. No. 97-247 in 1982, which was after the events which led to the Dubost case, most clerical or procedural efforts can be corrected and do not result in the loss of substantive rights. This law amended sections 111 and 21 of title 35 to permit the late submission of the fees and oath or declaration in patent applications and provides a procedure for avoiding the actual or potential loss of rights due to mail delays. However, appropriately, substantive rights may be lost even now for errors in omitting all or parts of the description of the invention or for failure to diligently correct clerical errors. Without some limits, processing would become inefficient and chaotic. However, since the enactment of Pub. L. No. 97-247, fatal errors rarely occur.

11. Question - Do you believe that a copyright form of protection for industrial designs, as recommended in H.R. 379, would help "unburden" the PTO office, enabling it to better meet its patent examining obligations?

Answer - Creation of a new form of intellectual property, such industrial design protection, involves many complex issues in addition to the reduction of design patent application workload. We will actively consider these issues in the Administration within the next month and hope to make a recommendation to the Congress soon.

12. Question - Would you outline the cash award system you have implemented for patent examiners. How do you explain the Office of Technology Assessment statement that the program "inherently awards short cuts?"

Answer - The cash award system for examiners complements our examiners' performance appraisal plan (PAP). The USPTO is in the process of modifying its present performance appraisal plan. The new plan sets forth five areas in which examiners are evaluated including (1) how well they carry out basic examining functions, (2) the quality of their actions and letters, (3) the quality of their patentability determinations, (4) production, and (5) work flow management. The total weighting of the first three quality-related elements is 40% of all five and the weighting of the production element is also 40% of an examiner's performance. The remaining 20% relates to examiners management of their work flow. Therefore, quality ranks equally with production.

There are two types of dollar awards, a quality step increase or pay increase that lasts indefinitely, and a one-time cash payment. Receipt of a quality step increase requires outstanding performance in quality as well as production. A one-time cash award of up to 3 percent of salary may be received by an examiner each year based on satisfactory or higher quality work and outstanding production, that is production at 110% of their goal or higher.

In the context of the performance appraisal plan, especially as we are amending it, and our Quality Review Program, we do not feel that the awards program compromises the incentive for an examiner to do a quality examination. We believe that the performance appraisal system and the awards program provide a proper balance of incentives for an examiner to do an efficient, quality examination and avoid short cuts that affect the quality of patents that issue.

SUPPLEMENTAL QUESTIONS FROM
SENATOR HATCH

1. Question - At the end of the 99th Congress, I introduced with Senator Leahy a bill to amend the antitrust laws as they relate to technology licensing. This Congress, Senator Leahy and I have again introduced this bill, S. 438, which rules out per se violations and limits recoveries to actual damages. This concept was part of the Administration's Intellectual Property package in the past. Can you comment on how this bill might benefit U.S. producers and consumers of high technology?

Answer - Licensing of technology is often the only way producers can benefit from their investment in research and development. Innovative licensing arrangements may be necessary to transfer new technologies successfully. If these licensing practices exposed producers to "per se" violations without being able to explain or defend there activities, the incentive to engage in costly R and D would be diminished. Ensuring that technology licensing arrangements are judicially evaluated under a "rule of reason" will encourage U.S. producers of high technology to invest greater amounts into R and D. Increased R and D translates directly to increased access to new technology.

From an antitrust standpoint, treble damages should be reserved for clearly anticompetitive activities, for example, horizontal price fixing or bid rigging. Trebling is intended to provide potential plaintiffs with additional incentives to complement public enforcement with private actions, and to help deter anticompetitive conduct.

Where potentially procompetitive practices exist in technology licensing, however, trebling can have serious anticompetitive side effects. Overdeterrence is a major concern; trebling can cause firms to shy away from such competitive conduct, even though it may have significant economic benefits. Moreover, competitively beneficial practices often are challenged by competitors or potential competitors with perverse motivations to sue. Competitors may use the threat of treble damages to coerce a successful rival into abandoning or restricting conduct or arrangements that enhance efficiency and lower prices to consumers.

2. Question - Because you are testifying ahead of the other witnesses, you will not have the opportunity to respond directly to some of their concerns. I wonder, however, if you could comment on some of these points that I have gleaned from their written testimony.

The U.S. Trademark Association notes that the PTO user fee for trademark registrants is "nothing but a special tax imposed on one segment of the population, namely trademark registrants. If the PTO's trademark fees were in fact user fees they would be limited to the recovery of the actual cost of the service." Would you care to respond to that?

Answer - The trademark fees are user fees in the true sense of the term. It has been a policy of this Administration that costs associated with programs which benefit selected groups of the general population should be borne by the recipients of those benefits.

The appropriateness of this policy and its applicability to trademarks was maintained by Congress in the initial fee legislation (Pub. L. No. 96-517) and in Pub. L. No. 97-247 which increased the fees to be charged for trademarks. At that time, the Administration presented a proposed fee structure that would recover through fees all direct costs of trademark production as well as necessary indirect costs in a manner consistent with commercial practice. Overhead items

necessary to the functioning of a unit of the Federal Government were not included in the fees nor was any expense for capital asset depreciation that would be appropriate for a private concern but not a Federal entity.

As stated in the recent trademark fee revision rule package which was published in the Federal Register in the fourth quarter of fiscal year 1986 and which became effective on October 6, 1986:

"The Office followed (1) the general guidelines set forth in OMB Circular A-25 entitled "User Charges", that establishes general policies for developing an equitable and uniform system of charges for certain Government services and property, and (2) the guidelines for accounting and reimbursement for sharing of information technology facilities as set forth in Appendix II to OMB Circular no. A-130 entitled 'Management of Federal Information Resources.'

The Office used cost-finding techniques for determining the cost of all processing, services and/or materials associated with each trademark fee. Costs were determined from the best available records and included both direct and indirect costs. Costs were adjusted to reflect projected increases or decreases contained in the President's FY 1987 Budget. These cost figures were documented by the Director, Office of Finance and reviewed by each responsible Assistant Commissioner."

In the interests of full disclosure of all relevant cost and income information, we have worked with the Trademark Advisory Committee (and with the firm of Arthur Young and Associates which was commissioned by the U.S. Trademark Association to provide necessary professional assistance) since December, 1985, to establish a set of quarterly financial statements that we make available directly to the Committee.

3. Question - The American Intellectual Property Law Association also dislikes the automation fees and suggests that fees should not be charged for the use of an automated search system in the public patent search room and the public trademark search room. What is the feasibility of this recommendation?

Answer - Under section 4 of Pub. L. No. 99-607, the PTO is precluded from charging user fees for accessing information, including the automated systems, in our public search areas.

Funds were appropriated in FY 1987 and are requested in FY 1988 to cover the cost of maintaining our existing paper, microfilm, and automated systems. However, funds to underwrite the costs of public access to our existing developed Automated Trademark System and to our Automated Patent System, still under development, were not appropriated in FY 1987 or requested in FY 1988.

Absent fee income from users of the new automated systems and appropriated funds, we have three options. The first option is to continue "business-as-usual" and provide public access only to our existing paper, microfilm, and automated systems. Under this option, the public would not have access to the automated data base used by the examiners. The second option would be to attempt to get additional appropriated funds to cover the costs of on-line public access. The possibility of receiving such funds is extremely slim in this period of fiscal restraint. The third option is to seek alternatives, such as supporting the search rooms and public access to the automated systems from general fee revenues rather than imposing charges directly on those who use the automated

systems. This means that patent and trademark applicants would pay for use of the systems by the general public and by "public searchers" who use the systems for commercial purposes.

Each of these options has drawbacks. We would like to work with this Committee and its counterpart in the House, as well as the private sector, to develop a solution that provides the most benefits to the public with the least disadvantages.

4. Question - I understand that a 1985 GAO study criticized the management of the trademark automation project and that a 1986 GAO study criticized the patent automation. Do you feel that the criticisms in those reports were justified?

Answer - While we do not believe that all the criticisms in the trademark and patent automation GAO reports were justified, both studies identified a number of shortcomings that we had recognized and had begun to address prior to the release of the report.

In June 1985, the Office of the Secretary of Commerce initiated a series of reviews of the automation project. These reviews were directed toward examining our internal management practices, the Department's role in monitoring and guiding the project, and the technical aspects of the project. The review teams were composed of Department of Commerce (DOC) and PTO staff, including representatives from the Offices of the Inspector General and the Institute of Computer Sciences and Technology (ICST), National Bureau of Standards.

The final reports, completed in September 1985, included 37 recommendations for improving the management and technical operation of the project. All of the recommendations have since been implemented and status reports sent to Congressional committees. Significantly, none of these recommendations were concerned with the basic computer system architecture, which remains fundamentally unchanged.

On October 28, 1985, the Deputy Secretary responded to GAO on the findings in its 1985 study of the trademark automation project. We reported that our reviews were much broader in scope than the GAO study, but that all the issues raised in the GAO report were addressed by the DOC reviews. A matrix comparing the GAO and DOC findings, along with the related corrective action, was sent to the Comptroller General.

On September 15, 1986, the Assistant Secretary for Administration responded to GAO on its patent automation report and said that the Department is in fundamental agreement with the thrust of most of its recommendations. We identified actions we had taken to address the major GAO findings, such as:

- extending the test and evaluation period for the Automated Patent System (APS) in patent examining Group 220 (the testbed) to ensure that all major components of the system are thoroughly evaluated;
- establishing a Review Board for the Evaluation of the Group 220 Testbed consisting of members from the DOC office of the Secretary, ICST, Office of Management and Budget, and Congressional Research Service;
- renegotiating the APS contract with Planning Research Corporation to convert a major portion of it to a fixed-price basis and to shorten the term of the contract; and
- obtaining input from the user community regarding the automation project. A subcommittee of the American Intellectual Property Law Association (AIPLA) has been meeting periodically with the Commissioner and other PTO

staff for more than a year to develop evaluation criteria for the Group 220 test.

We agreed with GAO that a reassessment of the APS should be conducted before any major commitment is made to expend significant resources on a full deployment to the remaining 14 patent examining groups. However, GAO's recommendation that we stop the patent automation project until a reassessment could be completed was not adopted. We believed it would be better to conduct such a reassessment after the results of the Group 220 test have been evaluated -- prior to any deployment decision. In accordance with the provision of Pub. L. No. 99-607, no funds for deployment of equipment will be obligated until the Group 220 test is completed, the reassessment made, and the Assistant Secretary for Administration, OMB, and Congress approves. No deployment decisions are expected to be made for at least another year, when the results of the APS testbed will be available for analysis.

We are in the final stages of preparing the third edition of the Automation Master Plan. This edition reflects the actions being taken to strengthen the automation program; namely, extension of the testbed period, detailed test and evaluation plans, renegotiations of the PRC contract, DOC oversight, user group participation and deployment decision process.

Senator DECONCINI. Mr. Quigg, thank you very much. We will go ahead and now hear the testimony of Mr. Latker, and I do have some questions.

STATEMENT OF NORMAN J. LATKER

Mr. LATKER. Thank you, Mr. Chairman. Thank you for your invitation.

American industry is in the midst of a major economic transition, caused in part by a worldwide explosion in new technology. U.S. trade deficits are partially explained by new foreign technology capturing markets previously dominated by the United States. This challenge calls for increased efforts to deliver American inventions, whether publicly or privately created, to the marketplace as a core of new businesses and jobs.

The United States has been investing \$110 billion annually in R&D; \$55 billion is federally funded, the other half private. The magnitude of the Federal investment raises two questions: Does it subsidize foreign competition? Does it deliver a fair return?

The first question cannot be answered conclusively, but suggests that American industry should have first option to the practical results of such research, but while preserving open scientific communication.

As to the second question, facts suggest that we could get more from the Federal investment. For example, approximately 120,000 patent applications are filed annually in the Patent Office. Of these, less than 3,000 cover federally sponsored research. The remainder are the result of private sector R&D, including growing numbers coming from foreign sources. These facts have produced a strong administration resolve to increase U.S. commercialization of federally generated products and processes.

Under past policy, ownership of technology was often separated from the R&D organization that created the technology, putting it

in the hands of Federal managers who did not have the background to judge its value. Loss of the creator as the owner advocate made it difficult to complete the complex process of delivering technology to the marketplace.

The administration believes that a key element in increasing the commercialization of Federal R&D results is to decentralize technology management by permitting the creating organization to own its technology. Such ownership brings with it incentives to evaluate each new technology and determine whether it should be published, patented, copyrighted, held in confidence, trademarked or some combination of these actions. The incentive of possible income, outside risk capital, and royalty return produced by ownership have already prompted federally funded universities and their publication-oriented employee investors to identify new patentable technologies and then assume the complex responsibility of managing them on to the marketplace.

Establishing the incentives of ownership are very important, because intellectual property rights must be identified and sometimes licensed away to justify the investment of private risk funding in most technologies. Failure to establish such rights in a potentially marketable product by a publicly funded creating organization greatly diminishes possible private sector marketing of this discovery.

Public Laws 96-517 and 98-620 are the President's Patent Policy Memorandum of 1983 combine to give universities, small businesses and all other contractors the first right of ownership of patentable inventions made with Federal funds. Public Law 99-502 extends the principle of decentralized management to Government-operated laboratories by permitting Federal agencies to delegate the management of patentable laboratory technology to the laboratory director.

The success of decentralized management of technology is important to the States that are planning economic growth around R&D assets, such as universities, which can now cooperate with the private sector. Under Public Law 99-502, Federal laboratories can be included in this asset base. The leveraging of Federal, State, university, and private sector resources under local leadership is essential if we are to maintain technological leadership in the world.

While the laws and memo I referred to are limited to patentable inventions, the President's competitive initiative announced the intent to extend contractor ownership to the nonpatentable results of federally funded research by permitting Federal contractors that own technical data, including software, made under Federal contracts. The initiative is directed to creating an incentive to commercialize ideas that cannot be protected by a patent, but are nonetheless of commercial value.

Progress has been made in fostering the commercialization of federally funded technology. The President's competitiveness, initiative could lead to even better results. A \$55 billion investment demands that we search for the best way to make it pay off.

Thank you.

[The prepared statement of Mr. Latker follows:]

STATEMENT OF

NORMAN J. LATKER
DIRECTOR, FEDERAL TECHNOLOGY MANAGEMENT
POLICY DIVISION, OPTI

U. S. DEPARTMENT OF COMMERCE

Mr. Chairman and Members of the Subcommittee

It is clear that American industry is in the midst of a major economic transition. Part of the transition is being caused by a worldwide explosion in new technologies.

Microelectronics, biogenetics, robotics, new materials, information sciences, and other new technologies will shape the world's future economic growth. Our recent huge trade deficits are at least partially explained by new foreign inventions taking an increasing part of markets previously dominated by United States goods.

However, depending on how we react as a nation, the total impact can be positive. The delivery of new American inventions, whether publicly or privately funded, to the marketplace can create an array of new businesses, and new businesses mean new jobs.

Today I want to discuss the exciting opportunities that are now before us for increasing the public sector contribution to innovation.

In the last few years the U.S. has invested on average 110 billion dollars annually in research and development. Fifty-five billion of this is federally-funded; the other half is funded by the private sector.

A federal investment of this magnitude raises two fundamental questions: First, are we unduly subsidizing foreign competition? Second, are we getting a fair return?

The first question cannot be answered conclusively, but we must be vigilant in ensuring that this does not occur. For research that has clear practical applicability, we must try to ensure that American industry has first access to the results of

such research -- while at the same time preserving the free and open scientific communication that has historically been so important to the U.S. research enterprise.

As I will discuss later, we must provide a clear policy to contractors on the control of the very valuable technical data they produce. Finally, for our own benefit, we must ensure that America industry is aware of the variety of federal programs to disseminate commercially valuable technical information.

As to the second question, a number of figures suggest that we could get a better payoff from the federally-funded share of our national R&D effort. For example, approximately 120,000 patent applications are filed in the U.S. Patent and Trademark Office annually. Of these, less than 3,000 can be identified as emerging from government sponsored research. The remainder are the result of private sector R&D - including those coming from foreign sources. In addition, less than five percent of the 28,000 patents owned by the United States Government have been licensed. Statistics like these, numerous studies on the utilization of results from federally-funded research, and increased foreign competition demonstrate why the Administration has provided strong leadership to help increase the rate of U.S. commercialization of the new products and processes created by the \$55 billion federal investment in R&D.

In the past the ownership or management of technology was often separated from the R&D organization that created the technology, putting it in the hands of managers who often had neither first hand knowledge of the technology nor an ability to gauge its value. This kind of management makes it much more difficult to continue the iterative process necessary to deliver technology to the marketplace successfully.

The Administration believes that a key element in increasing the commercialization of Federally-supported R&D results is to decentralize technology management by permitting the creating or inventing organizations to own and manage technology developed

with government funds. Such organizations would include government laboratories as well as universities and private firms.

Ownership and management of technology by the federally-funded inventing or creating organization brings with it incentives to evaluate each new technology and determine whether it should be published only, patented, copyrighted, maintained as confidential information, possibly trademarked or some combination of these actions. These incentives are the prospects of income, outside risk capital and royalty return. These incentives have already prompted federally-funded organizations such as universities and their publication oriented employee-inventors to identify new patentable technologies and then to assume the complex responsibility of managing them on to the marketplace.

These incentives are important in a free market economy because intellectual property rights must be established and sometimes licensed away to justify the investment of private risk funding in most technologies. Failure to establish such rights in a potential marketable product by the creating organization could greatly diminish the incentives to complete development through to the marketing of this product.

Public Laws 96-517 and 98-620 give to universities (including universities managing government-owned laboratories) and small businesses the first right of ownership to patentable inventions they make in performance of federally-funded research. The President's February 18, 1983 Memorandum on Patent Policy extends that right, to the extent not prohibited by law, to all other classes of contractors. Public Law 99-502, The Federal Technology Transfer Act of 1986, extends the principle of decentralized management to government operated research laboratories by permitting the federal agencies to delegate the management of laboratory technology to the director of the laboratory.

The success of this effort to decentralize management of new technology is being borne out in many states that are planning long-term economic growth around increased R&D cooperation between their universities and the private sector. Under P. L. 99-502 federal laboratories can now be included in such arrangements. This type of federal, state, university, and private sector cooperation under local leadership will be essential if we are to maintain technological leadership in the world.

While the laws and regulations that I have referred to are limited to the management of patentable inventions, the President's January 27, 1987 Competitiveness Initiative Statement announced the Administration's intent to extend the policy of contractor ownership to the nonpatentable results of federally-funded research. Item 21 of the competitiveness initiative states:

"The Reagan Administration will implement a policy to help commercialize non-patentable results of Federally funded research by permitting Federal contractors to own software, engineering drawings, and other technical data generated by Federal contracts in exchange for royalty-free use by the Government."

This policy change is directed toward creating an incentive for commercialization by our contractors of know-how and ideas that cannot be protected by patent but are, nevertheless of potential economic importance. We believe a great deal of progress has been made in fostering the commercialization of federally-funded technology. The President's competitiveness initiatives could lead to even better results. The large investment of the Federal government in R&D demands that we continue to look for ways to make the investment maximally productive to the American economy.

Senator DECONCINI. Mr. Latker, thank you very much.

Commissioner Quigg, I am greatly concerned about some studies and reports that have come out. The 1983 IPO survey of patent owners, which Don Banner will probably refer to in his testimony, found that only 17 percent of the respondents have "strong" confidence in the validity of the patents issued by your office.

A more recent survey of AIPLA had a similar result. Furthermore, in ranking the seven priority improvements in the PTO's operations, the patent owners ranked improving the quality of search and examination first and second, respectively, while shortening the average pendency time of patent application to 18 months was rated as low as 6 out of 7. Also, the PTO has a cash award system based on quantity of production that the Office of Technology Assessment stated "inherent awards shortcuts."

One of the goals of your three-point plan is to reduce the average time it takes to issue patents to an average of 18 months from the time of filing. Has the quality of examination increased or decreased in the last 5 years, and are patents more reliable now or are they status quo, static or less reliable? Would you respond, please.

Mr. QUIGG. Well, Mr. Chairman, I would have to say that at the present time we are devoting more time and effort to quality than has ever been devoted to that in the past history of the office.

I would have to say that our quality review program does not support the statement that the quality of patents is poor. It is better. We have been—well, we undertook with the American Intellectual Property Law Association a study to determine what the lawyers felt were the problems in the office, and those data have been analyzed and we are taking approaches to try to solve those problems.

We have also made a similar approach to our examiners to find out what areas they think the attorneys are presenting as weaknesses. Those data have been collected and are being analyzed and as soon as they have been analyzed they will be passed back to the AIPLA for their help.

Senator DECONCINI. May we have the results of those, too? It might be very helpful to us.

Mr. QUIGG. Yes, indeed, we will be glad to give you those.

We are taking every step that we know how to improve the quality of patents. I spent 35 years in private industry. I agree that quality has to be there or our system is of no value whatever. So that has been one of my own personal goals in the office.

Senator DECONCINI. What concerns me, of course, is the best test of any product is the consumer and your patent owners, at least in an 1983 survey, indicated a real problem. It appears that maybe your surveys and the work that you are doing will demonstrate that there is some improvement. I am pleased that you are certainly committed to that. I still hope that some greater steps can be taken.

The automated search system you are implementing is a necessary step toward improving the efficiency of the Patent and Trademark Office operation. However, there has been a great deal of criticism about the manner in which the automation program is being conducted.

For example, the trademark automation system is currently only being used by trademark examiners. When do you plan to implement a test of the system by the private sector, which has a more comprehensive need of the system? Secondly, when do you intend to make the system available for public use and benefit?

Mr. QUIGG. Well, first of all, our data base is being completed and will be completed by July of this year. I would say that three members of the private sector have been evaluating the trademark search system for several months now. We will be evaluating the completed data base throughout the remainder of this year.

Now, as to your question of when will it be made available to the public, we are faced with a bit of a dilemma. We have been told in our budget authorization that we are not to use any fees for automating a search room. We do not have taxpayer money for doing that, so we really have a dilemma as to just how and when the search room can be automated. We have looked at—

Senator DECONCINI. Would that take a statutory change in your opinion, a mandate from the Congress, a directive from the Congress to use those fees?

Mr. QUIGG. Yes, it would at the present time. Our authorization bill specifically prohibits the use of fees for the automation of the search room, and whether or not fees should be used is something that I think your committee and we will need to discuss as we move along through this year.

We will not be in a position to automate the search room, even if funding was available, until the first part of calendar year 1988.

Senator DECONCINI. I have one other question, then I will defer to my distinguished colleagues. The Board of Patent Appeals, in fairness, appears to be at a very unacceptable level and I believe this board performs a very critical function. First, when do you estimate a reduction in the pendency time on appeals? Second, in addition to increasing the size of the Board, what specific modifications to the rules of practice and processing techniques are you referring to in your written statement which will improve the efficiency of processing such appeals?

Mr. QUIGG. As to the first part of your question, I think that the reduction will not take place in less than another year to a year and a half, primarily because it is going to be necessary to get 14 new examiners-in-chief on that Board and get them experienced in writing.

We are in the process of going toward a revision in the type of briefs that would be requested from the attorneys so as to more clearly crystallize the issues that go to the Board. We are going to concentrate also on the examiner's answer, so that too would tend to crystallize the issues. By doing this, we believe that we can shorten the period of time required for an examiner-in-chief of the panel to consider any particular case, and this should result in a reduction of the caseload.

Senator DECONCINI. Thank you, Mr. Quigg.

Before I go to Mr. Latker, the distinguished Senator from Iowa has come in, and the distinguished Senator from Alabama.

Senator Grassley, do you have any opening statement or questions of Mr. Quigg? Then we will go on to Mr. Latker.

Senator GRASSLEY. Mr. Quigg, I would like to have you to explain for me, if you would, in more detail the administration's proposal for mandatory fee awards and mandatory use of the Patent and Trademark Office reexamination.

Mr. QUIGG. I would be glad to address that, sir. One thing that the bar has been looking for for at least 18 years that I know of is a way of reducing the expenses of litigation. At the present time, patent litigation cost is almost prohibitive.

The reexamination procedure was instituted for the purpose of doing just that. Now, we have been relying on the bar to voluntarily utilize the reexamination process to the extent possible. At the present time, the amount of use has not risen to the point that we had anticipated when that went into effect.

What we propose is that unless a judge feels that it would not be in the public interest to have the Patent and Trademark Office as the experts in the interpretation of patents—first look at the patent with respect to any new art that is brought up—then the party raising the patent as a defense would have to go back to the Patent and Trademark Office.

Now, there are some who argue that this would not necessarily reduce it, because the court still is in a position of looking at those patents again. Well, if the Patent Office finds that the newly cited art does not anticipate those claims and make them invalid, that position would be correct. But if the Patent and Trademark Office looks at the art and says we would not have allowed these claims over these references or this reference and therefore this claim is invalid, then that results in a disposal of some litigation.

Now, there was a recent survey that was carried out and is reported in the Journal of Patent and Trademark Office Society, December 1986 issue, which has a question, "What impact did the reexamination have on litigation?"

On the statement "No impact at all," 8 percent responded; "A small impact," 12 percent; "A large impact," 80 percent. So I would have to say that I feel that this would have a definite bearing on the expense of litigation.

We found that when there is a reexamination, that there tends to be a better chance of settlement of the dispute at an early date.

Senator GRASSLEY. I would also like to have your view on the scope of the proposal on the patent misuse doctrine.

Mr. QUIGG. Well, I think that patent misuse has been used pretty much as a boilerplate defense in litigation for many, many years, and I think that what we need to do is to bring the law back to a point where it is a reasonable approach, rather than any per se violation of the law.

Senator GRASSLEY. But along this line, then, you are making specific recommendations?

Mr. QUIGG. Yes.

Senator GRASSLEY. And they are already finalized by your department and proposed or are you still in the process of—

Mr. QUIGG. They are in the President's package, yes.

Senator GRASSLEY. I would like to have you explain your position on the process patent bill which passed the Senate last year.

Mr. QUIGG. I think it is highly important that we have our process patents enforceable as they are in the countries of our trading

partners. We opposed the bill that the Senate passed last year, primarily because of a provision in there which would have provided in effect mandatory licensing of a patent. It would not have permitted the patentee to enforce a patent for some 18 months against imports.

Also, there was a continuing protection for purchasers of the goods in the country, and I think that the bill, had it been limited in that respect to grandfathering of a supply that was in effect when the patent issued, would have been acceptable. But to have that extend on and permit other suppliers to come in was not acceptable.

We have been arguing with other countries that mandatory licensing of patents is not acceptable to the United States, and to have us turn around and put mandatory licensing in a bill I think would be a grave mistake.

Senator DECONCINI. If the distinguished Senator from Iowa would yield, I intend to hold some hearings on the process patent subject matter, and the Senator will have the opportunity to delve into it at much greater length. I do not want to cut you off here, but I want you to know that we will have some more opportunity to further review this area. This is a good line of questioning.

Senator GRASSLEY. Then do you see this year's bill having those same problems that last year's bill had?

Mr. QUIGG. Yes, sir, I do.

Senator GRASSLEY. Thank you.

Senator DECONCINI. Thank you.

Senator HEFLIN, do you have any questions of the witness or an opening statement?

Senator HEFLIN. I do not have an opening statement. I understand that there is a big turnover of personnel at the Board of Patent Appeals. I believe that out of their 10 examiners, 2 examiners retired or resigned in 1986, leaving you approximately a quarter of your staff down. What is the reason for this high turnover rate?

Mr. QUIGG. Well, of course, I would simply be guessing, because I cannot get into those individuals' minds. But I will say this, that most of the patent firms in this area are expanding, and the experience at the Board of Patent Appeals and Interferences is excellent experience for an attorney going out into private practice. All I can say is that there have been a number of things, such as the possibility of revising the retirement plans of the Government, the fact that these are senior examiners that have a lot of experience in patent work, and they simply have decided that they want to take part in private practice rather than stay on board.

Senator HEFLIN. Well, is the Office of Patents and Trademarks generally having any difficulty recruiting and retaining personnel? Do you have problems with recruiting them as well as keeping them?

Mr. QUIGG. I would add that positions at the Board are filled through competition. Most are filled from the patent examining corps. Also, say we have had one of the most successful recruiting programs in the last 5 years, that the Office of Patents and Trademarks has ever had. We have recruited something like 1,000 examiners in the last 5 years, and I think we have accomplished a

record. Of those 1,000 examiners, the average grades, the grade average has been 3.1 out of 4. They are honors graduates, and I think the recruiting has been excellent.

Senator HEFLIN. Thank you.

Senator DECONCINI. Thank you, Senator Heflin.

Mr. Latker, let me just quickly address a general subject and yet specific in the area of the National Institutes of Health. I understand that agency is spending close to \$30 million a year to bring foreign scientists into our labs. Many of these scientists are from Japan and West German industries. I believe that there are approximately 2,000 foreign scientists at NIH conducting R&D in areas of intense international commercial competition, such as biotechnology.

Incredibly, I am advised that there are only 10 or 15 scientists at NIH from U.S. industries, and I have even heard that sometimes foreign visiting scientists are not even required to report patentable inventions to the sponsoring U.S. agency. I would like to know if that last statement is true and what you think can be done to make Federal agencies understand that current practices are harmful to our economy.

Mr. LATKER. I would like to try to put that question in the context of what I had already said. When a federally funded creating organization does not establish a proprietary position in its ideas, the organization is really putting those ideas into the public domain. In the public domain, they are freely available not only to American but to foreign industry.

The Japanese especially understand this past policy and continue to exploit it.

They scour the public domain for our basic research results, bring it back to Japan, add some value to it, thus creating their own proprietary position, and then export the products covered by their proprietary position worldwide.

Using this kind of technique, the Japanese are openly predicting that they will take the lead in all technologies by the end of the decade.

Our change in policy has had a very visible effect on Japanese R&D policy. Recognizing that we are moving to close down no-pay access to our publicly funded research ideas and facilities by giving ownership of technology to our creating organizations, the Japanese have increased the funding of their own basic research at Japanese universities and are actively trying to buy access into ours.

But our Federal labs are still dealing in nearly a full public domain culture and the Japanese are clearly taking advantage of that at places like the National Institutes of Health. As you noted, there are something like 1,000 foreign and 700 U.S. investigators at NIH. Of the 1,000 investigators, 400 are from foreign industry, 100 of these are from Japan, 50 are from Germany, and as you suggest, there are only 10 to 15 U.S. investigators from U.S. industry at NIH.

Even more surprising, there are only three U.S. investigators in Japanese labs. These kinds of dramatic statistics are not going unnoticed at NIH. Dr. Wyngaarden, the NIH Director, began advising U.S. industry last fall that Public Law 99-502, which Senator Heflin and you actively supported, creates a whole new environ-

ment at NIH. First, the act permits NIH to accept U.S. investigators paid for with industry funds for the first time. Second, given the delegation to manage technology, NIH can now agree in advance to license ideas developed jointly at NIH with U.S. industry investigators for domestic development. And finally with the prospect of royalty return to NIH, industry can be better assured that inventions will be identified and patented.

Dr. Wyngaarden's initiative under the act is clearly intended to correct the imbalance between foreign and U.S. investigators at NIH. We hope that other laboratories are going to start following NIH's lead.

Senator DECONCINI. Mr. Latker, how could it get in this kind of situation? You say they are aware of it and they are doing something about it. They certainly have not been doing much about it. Is that a fair statement?

Mr. LATKER. I think that is accurate, but——

Senator DECONCINI. Why is that? Is that just a lack of understanding of the problem that this——

Mr. LATKER. I think in most part lack of incentives to do otherwise. You know, our great country believes in pluralism and open scientific communication. The people at NIH are illustrious in that regard.

Senator DECONCINI. Do you think in the case of NIH, they understand the problem now and are really——

Mr. LATKER. Yes, they are beginning to recognize it. What we are attempting to teach is that publication unaccompanied by attempts to establish U.S. proprietary positions is not in the best interests of the country. Failure to balance printing and publication needs discourages domestic development and allows great ideas to be lost to foreign competitors. The Japanese are driven by the fact that they have no basic research foundation such as ours and they have learned very early that, in order to compete worldwide, they must come to the United States and assess what we are doing.

Senator DECONCINI. Thank you. I have some other questions which I will submit to you. I am hopeful that you can give us at least your opinion and observations of how we can correct some of these problems.

Mr. LATKER. You asked one other question that I would like to just finish——

Senator DECONCINI. Go ahead.

Mr. LATKER [continuing]. And that is that it is correct that in the past foreign visitors were not required to sign invention reporting statements. Hopefully, that is under assessment at NIH also.

Senator DECONCINI. When you say it is under assessment, then it has not been implemented?

Mr. LATKER. As far as I know, there is no stated policy setting up what visiting scientists must do as far as invention reporting is concerned.

Senator DECONCINI. I realize that it is an unfair question to ask you, but do you know when they are going to implement that or if they are going to implement it at NIH?

Mr. LATKER. I think that much of that is tied to the concept of them starting to manage their own technology under the new law, the Federal Technology Transfer Act, which creates incentives for

them to do exactly what you are suggesting. Under the new law, if NIH or any other Federal lab continues to lose these rights, then basically they have lost the capability of private risk capital coming into NIH, supplementing their appropriated funds, and they have lost the possibility of royalty return. It is only sensible to us to believe that they will begin to look at inventions that are arising from their R&D.

Senator DECONCINI. Thank you.

The Senator from Iowa, do you have any questions of this witness?

Senator GRASSLEY. No. Thank you.

Senator DECONCINI. Thank you, gentlemen. I am sorry that time prevents us from going into more detail. I have a number of questions, particularly for you, Mr. Quigg, and also several for you, Mr. Latker, that I will submit, along with questions from Senator Hatch.

Thank you, gentlemen.

Our next panel will be Mr. Donald W. Banner, president of Intellectual Property Owners, Inc.; Mr. Jay Michael Cleary, board of directors of the U.S. Trademark Association; Mr. Robert Kline, American Intellectual Property Law Association; and Mr. William Marshall Lee, chairman, Section of Patent, Trademark and Copyright Law, American Bar Association.

Good morning, gentlemen. As indicated, I appreciate your taking the time to be with us here. Our time constraints are due to the nomination hearing of Mr. Gates, but I would inform you that your full statements, if you have them, or if you want to submit them later, will be included in the record.

I will start with Mr. Banner, if you could summarize your statement in approximately 5 minutes, and then we will go right down the line.

PANEL CONSISTING OF DONALD W. BANNER, PRESIDENT, INTELLECTUAL PROPERTY OWNERS, INC.; J. MICHAEL CLEARY, MEMBER, BOARD OF DIRECTORS, THE U.S. TRADEMARK ASSOCIATION; ROBERT C. KLINE, PRESIDENT, AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION; AND WILLIAM MARSHALL LEE, CHAIRMAN, SECTION OF PATENT, TRADEMARK AND COPYRIGHT LAW, AMERICAN BAR ASSOCIATION

Mr. BANNER. Thank you, Mr. Chairman. I can do that. Thank you for giving us this opportunity to testify and for putting our full statement in the record.

We are concerned, as you are, about the industrial competitiveness of the United States. In 1985, the most recent year for which we have data, 6 of the 10 corporations which received the largest number of U.S. patents were foreign controlled. Ten years ago, 1975, three were foreign controlled. That is merely one statistic, but I think it is significant.

I surely believe that the best way to turn around America's competitiveness is to establish a climate that will make it more profitable to invest in innovative activities. Opportunities should exist for doing precisely that. Strong encouragement, however, is required to change what has now become a movement in the wrong direction.

Basically, we believe that patents must exclude others—very simply, to exclude others—they must be reliable. You should be able to trust the strength of the patent that you obtain from the United States. That 17-percent figure that you talked about is in that area. They must be available without undue nonsense and they must be enforceable without undue nonsense, and they must have some reasonable length of time to run.

This matter that you talked about a moment ago with respect to the quality of the patent or reliability of the patent is really very significant. I sat in Mr. Quigg's shoes some years back. I remember that the lack of emphasis on quality is not only the fault of the Patent Office, it is not only the fault of the Department of Commerce, it is not only the fault of the Congress.

The fact of the matter is that most people, except the people who understand what is going on, are just interested in numbers, in the backlog. An Assistant Secretary of Commerce once told me that the main thing to do is to get rid of the backlog. I said: "I know how to get rid of the backlog, I will get rid of it in the morning." He said, "How are you going to do that?" I said, "Just allow everything."

It is nonsense, you see, but that is the direction in which we like to go. Congress wants to know how many disposals you are going to get for so many dollars. Well, that is good up to a point, but it is only up to a point.

The patent examining process, I like to say, is a three-legged stool. You have to have a search library that is reliable. All the patents have to be there. You have to have examiners who know what they are doing; they must be trained, so they can understand what the application is, and what the prior art is. Further you have to give them time to do the examination. If you weaken any one of those legs of the three-legged stool, you are asking for trouble.

Now, with respect to the administration's budget, we do know that some large amount of money is being proposed to automate the search files, but that strengthens only one leg of the three-legged stool. We do not see anything being done effectively to strengthen the other legs of the three-legged stool and we think it should be done.

Now, very briefly, some of the legislative proposals we are in favor of: the proposals for protecting industrial designs, to amend the Tariff Act, section 337, and to protect patented manufacturing processes. We are in favor of restoring the term for agricultural chemical and animal drug patents. We believe that trademark applications should be filable on an intent-to-use basis. We also think that the new round of negotiations in GATT are very important to American industry. We must insist upon strengthening intellectual property protection in other countries.

What we are talking about, in summary—is that we are trying to make America more competitive. We are trying to protect jobs in America. This is a long-term project, and I congratulate you and the rest of the members of this committee for being interested to such a high degree in getting on with this work. What we are talking about is increasing the flow of America's technological juices, to get America back out there on the cutting edge of technology. Then we are going to be strong, and that is worth the effort.

Thank you, Mr. Chairman.
[Submissions of Mr. Banner follow:]

STATEMENT OF DONALD W. BANNER, PRESIDENT
INTELLECTUAL PROPERTY OWNERS, INC.

SUMMARY

- o Effective patent protection can help restore America's competitiveness.
- o To provide strong incentives for research, development and commercialization of new technology, patents must:
 - Give the right to exclude others; be reliable; be available and enforceable without unnecessary expense; be available in all fields of technology; and run for an adequate length of time.
- o The U.S. Patent and Trademark Office should be doing much more to improve the quality of patent examining.
- o Changes may be needed in laws or regulations governing the duty to disclose information to the Office.
- o IPO supports several legislative proposals for strengthening intellectual property rights:
 - A copyright-like system for registering industrial designs.
 - Amendments to section 337 of the Tariff Act of 1930.
 - Stronger protection for patented manufacturing processes, but not the Senate-passed bill of last year.
 - Extensions of patent life for agricultural chemical and animal drug products.
 - Legislation to permit filing of a trademark application on the basis of an intent to use the mark in interstate commerce.
 - Certain proposals relating to patent and technology licensing, and certain of the Administration's proposals.
- o The Court of Appeals for the Federal Circuit needs more judges with experience in patent law and technology.
- o IPO favors vigorous U.S. government efforts to strengthen intellectual property laws abroad.

* * *

Mr. Chairman and members of the Subcommittee:

Thank you for this opportunity to discuss intellectual property rights.

I am appearing here on behalf of Intellectual Property Owners, Inc. IPO is a nonprofit association whose members own patents, trademarks and copyrights. IPO's members include large corporations, small businesses, universities and individuals. Members of IPO are responsible for a

significant portion of the research and development conducted in the United States. IPO believes an effective system for protecting patent and other intellectual property rights is very important for encouraging R&D and commercial development of new technology.

RESTORING AMERICA'S COMPETITIVENESS

The evidence is overwhelming that the industrial competitiveness and inventiveness of the United States has been slipping. Statistics relating to U.S. patents are one measure of the slippage.

In 1985, the most recent year for which data is available, six of the ten corporations which received the largest numbers of U.S. patents were foreign-controlled. Ten years earlier, only three of the top ten were foreign-controlled. Second and third places in 1985, after General Electric Company, went to Hitachi Limited and Toshiba Corporation.

In 1986, the share of U.S. patents granted to foreign nationals was about 45 percent, up from about 20 percent in the late 1960s. The share going to Japanese nationals alone was 18 percent. The number of patents granted to U.S. nationals per capita also has decreased in recent years.

There are many indications besides patent statistics that America's inventiveness is in decline. An article in the New York Times this month reports that the venture capital industry is shifting its focus to mundane investments that have little to do with technological innovation or creating new jobs. Discount stores, pizza shops, athletic apparel concerns and companies that provide business and personnel services are cited as current targets for venture capital funds. An executive is quoted as saying, "technology has not been as rewarding as other forms of investment."

We have heard countless times that America today is preoccupied with short term results, and it is true. Inventing rarely is profitable in the short term.

It seems obvious to us that the way to turn around American inventiveness is to establish a climate that will make it more profitable to invent. The best way to insure profitability of inventing is to insure effective legal protection for American inventions, in this country and abroad.

The U.S. still has a research and development capability second to none. And even though treaty commitments require us to make patents available to foreign nationals on the same basis we make patents available to our own nationals, strong patent protection in the United States helps our companies more than it helps foreign companies. U.S. companies still own about 70 percent of unexpired U.S. patents and U.S. companies are the ones in the best position to exploit the U.S. market.

When companies believe their competitors, foreign or domestic, are likely to take a free ride on their R&D, there is little incentive to invest in R&D. When the business community has confidence in the patent system, the seventeen year exclusive patent right to manufacture, use and sell inventions gives powerful incentives to invest.

If we can protect the owners of U.S. patents from free riders with no R&D expenses, we can protect many thousands of jobs in the United States. These are both jobs in manufacturing for the U.S. market and jobs in manufacturing for export markets.

In 1836 the United States became the first country in history to adopt a systematic approach to examining applications for patents. Its patent law later was emulated by many other countries. In the year 1900, a Japanese official visited Washington to study the American patent system. He reported as follows:

We have looked about us to see what nations are the greatest so that we can be like them.... We said, "what is it that makes the United States such a great nation?" and we investigated and found that it was patents, and we will have patents.

The patent system of course must change with the times. In the 1980's, Congress has made a number of changes to update and improve U.S. patent law, but IPO believes opportunities exist for further improvements. In addition, strong encouragement needs to be given to the efforts that are underway to have our trading partners upgrade their patent systems. Patent protection available to U.S. industry in many parts of the world still is weak or nonexistent.

PRINCIPLES OF EFFECTIVE PATENT PROTECTION

Some basic principles must be followed in order for any patent system to provide strong incentives for research, development and commercialization of new technology. There are various ways to express these principles. One formulation is as follows:

1. Patents must give the right to exclude others. The right to exclude others from making, using or selling the invention is fundamental. That is how the patent right is defined in section 154 of title 35 of the U.S. code.

The right to exclude must mean what it says. It must give patent owners the right to put infringing competitors out of business. In several important recent cases, Federal courts have been willing to make the hard decisions necessary to uphold exclusive patent rights worth tens and hundreds of millions of dollars.

Many foreign patent systems, on the other hand, have "compulsory licensing". That is, patent owners are compelled to permit others to make, use or sell the invention, in return for a so-called "reasonable royalty" set by government authorities. The right to a government-controlled royalty is far less valuable than an exclusive right. Moreover, in many countries compulsory licenses are granted when a patent owner fails to manufacture in that country. This kind of

compulsory licensing stands in the way of companies manufacturing in the United States for export.

2. Patents must be reliable. In the U.S. and other developed countries, patents are granted only after an examination to determine whether the invention sought to be patented meets standards prescribed by law. In the United States the main standards are that inventions must be "useful," "new," and "nonobvious". Once a patent has been granted, it can be attacked in court for failure to meet the standards. If the Patent and Trademark Office has made a mistake in issuing a patent, the patent is invalid.

During the 1970's, far too many patents were held invalid. In part, this was because of inability of the Patent and Trademark Office to locate the most relevant "prior art" before patents were granted. In part, it was because of hostility by the courts during an era of monopoly phobia. The result was that businesses lost confidence in patents. Some of the confidence now has been restored because of an improved climate in the courts.

3. Patents must be available without unnecessary burden and expense. User fees charged by patent offices must be kept within bounds to avoid deterring people from applying for patents. Patent laws and regulations must be kept as clear and simple as possible to keep legal fees within bounds. Patents must not be denied or invalidated for minor procedural defects.

4. Patents must be enforceable without unnecessary burden and expense. Provisions governing patent infringement suits must not impose unnecessary requirements on patent owners. Under American patent law, and under copyright law as well, actual knowledge of infringement or intent to infringe generally is not required for an infringer to be liable. Infringement is not a question of guilt or innocence. Possible infringers are expected to investigate the status of intellectual

property rights. This applies to distributors, retailers, and consumers as well as to manufacturers, except that infringers are afforded a right of indemnity from their suppliers or manufacturers.

5. Patents must be available in all fields of technology. In the United States, since the landmark 1980 and 1981 decisions of the U.S. Supreme Court allowing patents for biotechnology and computer programs, patent law appears to cover all major fields of technology. The situation is different abroad. Many countries limit or deny protection for certain subjects of invention, including chemical processes and products, foods, beverages, biotechnology, pharmaceuticals, agrichemicals, and computer programs. By denying patent protection for inventions in fields perceived to be critically important, countries cut off the incentives for future technological advances in those fields.

6. Patent protection must run for an adequate length of time. The term in the U.S. -- 17 years from the date of the patent grant -- is generally regarded as reasonable. The roughly equivalent term of 20 years from the date of filing which is followed by many other developed countries also is acceptable. Both in the U.S. and abroad, however, the effective patent term is much shorter for certain industries because of time required after the patent is granted to obtain government regulatory approvals for marketing the invention.

We believe the U.S. patent system is reasonably consistent with these principles. Many foreign systems are not. U.S. law should be reviewed by Congress regularly, however, to insure that it is operating effectively. Patents must be valuable in fact and perceived as valuable. When business people lack confidence in patent rights, the desired incentives are not obtained.

Perceptions change slowly. Confidence in the patent system can be maintained only by providing valuable patent rights over a long period of time.

THE U.S. PATENT AND TRADEMARK OFFICE

The Patent and Trademark Office, of course, is a cornerstone of the patent system. The Office examines patent applications and issues patents which, according to section 282 of the patent code, are to be "presumed valid".

Quality of Patent Examining

In order for patent protection to be reliable, the Office must perform high quality patent examining work. We believe the top priority of the Patent and Trademark Office should be to ensure high quality patents.

Examining does little good if examiners fail to find the most relevant earlier technology when they conduct searches, or fail to evaluate patent applications carefully for compliance with the applicable laws and regulations.

I like to make an analogy with the support needed to hold up a three-legged stool. The three legs needed to hold up quality of patent examining are: (1) a complete and accessible search file of prior patents and technical literature; (2) a corps of capable and well trained examiners; and (3) adequate time for examiners to examine each case. If any one of these three legs is too weak, the stool will collapse.

We believe the Office should be doing much more to improve examination quality. One of our main sources of information about quality is a survey we conducted in the fall of 1983. Our survey was mailed to patent owners throughout the United States. Most of the respondents were large and medium size corporations.

Although our survey is now over three years old, its findings are similar to those of a recent survey conducted by the American Intellectual Property Law Association. We believe perceptions of the

Office's examination quality have changed little over the last several years.

In our survey, respondents were asked, "What degree of confidence do you have that patents issued to you by the PTO are valid?" Sixty-eight percent said "moderate". Only seventeen percent said "strong".

Respondents also were asked, "Would it be cost effective for the PTO to change the amount of time and money it spends examining the average patent application?" Forty-six percent said more time and money should be spent. Only one percent said less time and money should be spent.

Our survey also asked patent owners to rank in priority seven possible improvements in the Office's operations. It was surprising to some people that the item ranked highest was to improve the quality of searches made by examiners in paper search files. Ranked second was to improve quality of examinations apart from searches. Automating search files placed third. Shortening the average pendency time of patent application to 18 months was rated a lowly sixth out of seven.

The paper patent search file is totally inadequate. Former Commissioner Gerald J. Mossinghoff, after he left government, said in a published interview, "One of the real scandals of the Patent Office ... is that 7 percent of our references that the examiners must look through are either missing or misfiled." IPO believes the paper search file cannot be allowed to deteriorate further.

The paper search file cannot be scrapped instantly when the automated system is completed. At least that is the experience with other types of files which have been automated. Lexis and Westlaw have not caused law libraries to discard their law books yet. The availability of commercial on-line trademark searching has not caused the public, so far, to stop using the paper trademark search file at the Patent and Trademark Office. Moreover, if the paper file is allowed to continue to

deteriorate, the Office will issue thousands of invalid patents before the automated search system is even fully operational.

I want to stress that IPO strongly supports automating the Office's operations. We believe automating the PTO search files is one of the keys to improving the quality and reliability of the patents and trademarks registrations issued by the Office over the long term. Nevertheless, not all of the eggs should be put in the automation basket.

We have testified before, and it remains our view, that the Office's system of giving cash awards to patent examiners based almost entirely on quantity of production causes examiners to concentrate on quantity. This conclusion has been supported by a number of studies, including a 1984 study by the Office of Technology Assessment of the U.S. Congress, which reported that "the system inherently awards short-cuts." In at least one recent year the PTO actually reduced the amount of time allotted to patent examiners to examine applications.

The Office's 1988 Budget

We have read the recently-released 91 page budget document for the Patent and Trademark Office entitled "1988 Budget Submission to the Congress", dated January 1987. We find nothing in the budget directed to increasing quality of examination except for the long term, \$800 million project for automating the search files.

The Patent and Trademark Office should be devoting more funds to recruiting, training and retaining the highest quality personnel possible - professional and clerical. The Office should be maintaining the paper search files properly. The Office should reevaluate its employee awards system.

Although the 1988 budget indicates that the Office is continuing to make progress toward its 18 month pendency goal for regular patent

applications, the budget reveals that serious delays still exist in certain operations. The backlog of appeals at the Board of Patent Appeals and Interferences is at unacceptable levels. The backlog of unexamined design patent applications, which is not counted when measuring progress toward the 18 month pendency goal, also is unacceptable. Design patent applicants, because of rapidly changing styles and fashions, often have a much greater need than other patent applicants for prompt protection.

User Fees; Oversight

Last year we supported enactment of the Patent and Trademark Office Authorization Act, Public Law 99-607. This law contains several provisions relating to user fees that we believe are important. The law limits increases in all patent and trademark user fees to adjustments necessary to keep pace with increases in the consumer price index through fiscal year 1988. We recommend legislation to extend the consumer price index limitation. Likewise the provision which prohibits spending more than 30 percent user fee money to pay for automating the search files should be extended. A provision which prohibits the Patent and Trademark Office from entering into exchange agreements relating to automatic data processing resources should be extended as well.

P.L. 99-607 made permanent the Office's authority to charge 50 percent lower fees to independent inventors, small businesses, and nonprofits. Even with this reduction we regularly hear complaints from independent inventors and small businesses that patent fees are burdensome.

We agree with the prohibition in P.L. 99-607 against charging user fees in the public search rooms. This provision, as we understand it, applies only to the public search rooms that are located at the Patent and Trademark Office in Arlington, VA. Congress may need to address the issue of charging user fees for on-line access to the Office's automated search systems at locations other than Arlington, VA.

P.L. 99-607 requires the Patent and Trademark Office to wait 90 days after notifying the Congress of each key deployment decision in the automation project before implementing that decision. We are not in a position to judge whether satisfactory progress is being made on the automation project currently, but we recommend continuing oversight of automation.

We have the impression that if the Patent and Trademark Office had used a more careful and deliberate approach to planning and execution, it could have avoided some of the criticism of automation in 1985 and 1986 by the General Accounting Office. On the other hand, it should be recognized that the Office is attempting one of the most complex automation programs in the federal government and is confronting many issues for which no precedents exist.

Gramm-Rudman-Hollings

Treatment of user fee income of the Patent and Trademark Office under the Gramm-Rudman-Hollings statute deserves the Subcommittee's attention. Gramm-Rudman-Hollings is being interpreted to require including user fees as well as appropriated funds in the amount against which across-the-board reductions are assessed. The same interpretation has been applied to the user fees of the Copyright Office.

This interpretation makes no sense. For fiscal year 1986, the result was that the taxpayer-funded appropriation of the Patent and Trademark Office was reduced by 10.5 percent, compared with 4.3 percent for most other agencies. In the case of the Copyright Office, the result was a cut of 7 percent of the taxpayer dollars, compared with 4.3 percent for other agencies.

We urge the Subcommittee to take action to amend Gramm-Rudman-Hollings so that only the taxpayer-funded portion of the budgets of the Patent and Trademark Office and the Copyright Office will be subject to across-the-board budget reductions. This would put the two offices on

the same footing as other agencies for purposes of Gramm-Rudman-Hollings.

Patent Applicants' Duty of Disclosure

We recommend that the Subcommittee should study possible legislation concerning the duty of patent applicants to disclose to the Patent and Trademark Office information which is material to the examination of their applications. The duty of disclosure is defined by Patent and Trademark Office regulation 37 CFR 1.56 and in numerous court opinions.

While we agree that patent applicants should have a duty to inform the Patent and Trademark Office of information they know about which would affect the validity of a patent to be issued to them, we believe the current law is causing unnecessary litigation. Clarification of the duty to disclose is needed, either through amendment of the Office's regulations or through legislation.

In addition to the need for a clearer statement of the duty, some narrowing of the scope of the duty may be appropriate. Under rule 1.56, it is necessary to disclose information "where there is a substantial likelihood that a reasonable examiner would consider it important", even if the information in fact would not affect whether a patent should issue. It is exceedingly difficult for the Patent and Trademark Office and the courts to make judgments afterwards on whether information that was not submitted to the Office would have been considered "important" by a "reasonable" examiner.

Perhaps the duty to disclose should apply only to information that would render a claim in a patent application unpatentable? Perhaps a lesser penalty than unenforceability of the patent should be imposed when undisclosed information would not invalidate a claim of the patent? A lesser penalty might be disciplinary action by the Patent and Trademark Office against a patent attorney who withheld information, or an award of attorney fees against the owner of the patent. This entire topic

should be the subject of hearings -- legislative hearings, regulatory hearings, or both.

DOMESTIC LEGISLATIVE PROPOSALS

I would like to comment briefly on several specific legislative proposals. IPO will be pleased to testify at hearings or provide more detailed written comments at a later date on these or any other topics.

Industrial Design Protection

We recommend that legislation to establish a copyright-like system for protecting industrial design be given high priority by the Subcommittee this year. This legislation was considered in the Senate several years ago. No action has been taken on bills introduced in the House in more recent Congresses, but a bill has been introduced in the House again this year.

We are covering this copyright-like legislation in our statement on patents because we believe it would be a major improvement over the design patent law administered by the Patent and Trademark Office. It would provide more certain, quicker and less expensive protection.

The proposed system would protect against the copying of designs of useful articles for a period of 10 years. It would be administered by the Copyright Office. It would protect most designs that are intended to make industrial articles attractive or distinct in appearance to the purchasing or using public. Japan, West Germany and other countries have similar systems. With U.S. industry facing unprecedented competition from imports which imitate the appearance of articles manufactured in this country, we believe the United States no longer can afford to put off the issue of effective protection for designs.

Section 337 of Tariff Act

Another measure we favor which has been reintroduced this year is the

proposal to amend section 337 of the Tariff Act of 1930. Section 337 amendments are included in several omnibus trade bills this year and in separate bills as well. The legislation was the subject of Senate and House hearings in the last Congress. We believe its enactment will help preserve manufacturing jobs in the United States.

The most important of the proposed amendments to section 337 would treat intellectual property infringement, without more, as injury for purposes of section 337. By eliminating the requirement to show other injury besides infringement, the legislation would reduce the burden and expense of obtaining relief under section 337.

Section 337 already is an important remedy for patent owners, both in product patent cases and process patent cases. Efforts were made at the end of the last Congress by opponents of the legislation to dilute it by incorporating certain features from the Senate process patent bill. We are strongly opposed to any such modifications of section 337.

Process Patents

IPO favors suitable legislation to close the loophole that exists in U.S. patent law relating to process patents. This legislation would give patent owners the ability to sue for damages and an injunction in federal district court when someone imports into the United States or uses or sells in the United States a product made by a patented process.

Major trading partners of the United States, including Japan, West Germany, France, and the United Kingdom, have this kind of provision in their patent laws. Owners of U.S. process patents have a remedy against imports under section 337 of the Tariff Act of 1930, but section 337 does not enable recovery of monetary damages.

Although IPO supports in principle giving the district court remedy to process patent owners, our Board of Directors was unable to endorse the process patent bill passed by the Senate last year.

Concerns that have been expressed about last year's Senate-passed bill include the following: (1) It guaranteed infringers the right stay in business and pay a reasonable royalty for 6 to 18 months after receiving notice of infringement, which can be viewed as a form of compulsory patent licensing; (2) It made exceptions to the principle that sellers and users of patented inventions, as well as manufacturers, are liable for infringement; (3) It established a complex "request for disclosure" procedure forcing patent owners in advance of litigation to make an expensive and risky analysis of whether their patents "could reasonably be asserted" against infringers; (4) It imposed on patent owners a burden of showing a substantial likelihood of infringement in order to start liability for damages; and (5) Its enactment might have opened the way for the same provisions to be incorporated into section 337 of the Tariff Act of 1930.

Patent Term Restoration

We support legislation along the lines of bills considered in the last Congress to extend the terms of patents covering agricultural chemicals and animal drugs for up to five years to compensate for time lost by patent owners while awaiting federal pre-marketing clearances. This legislation is needed to give an effective patent life in the agricultural chemical and animal drug industries nearly equivalent to patent life available in other industries. It is a matter of fairness.

Patent term restoration last year became intertwined with other legislation affecting the agricultural chemical and animal drug industries. Patent term restoration legislation deserves to be passed on its own merits. Its enactment should not be made to depend on issues unrelated to the length of patent terms. The matter at issue is simply whether all industries should be entitled to 17 years of effective patent life.

Mandatory Attorney Fee Awards

The Administration announced in connection with the State of the Union

message that it will seek legislation requiring an award of attorney fees to the winning party in patent litigation "in cases of frivolous actions or willful infringement...." We reserve judgment on this idea until we see the legislative language the Administration proposes. If it is merely a codification of the policy on attorney fee awards already being followed by the Court of Appeals of the Federal Circuit, it probably will be noncontroversial. If it mandates attorney fee awards where district courts now have discretion, its effect on the cost of enforcing patents should be evaluated carefully.

Mandatory Use of PTO Reexamination Proceedings

The Administration in connection with the State of the Union message also announced it is seeking legislation to require challenges to patent validity based on earlier publications "to be considered first in an administrative proceeding before going to court...." IPO will study this idea further after the statutory language recommended by the Administration becomes available, but we wish to note that the idea was considered and rejected when the Patent and Trademark Office reexamination statute was enacted in 1980. Suspending court litigation already under way in order to refer back to the Patent and Trademark Office one of many issues that may be involved in the litigation could increase the expense of enforcing patents.

Foreign Patent Filing Licenses

We understand legislation is being suggested to the Subcommittee this year to amend section 184 of the patent code. Section 184 requires patent applicants to obtain a license from the U.S. Patent and Trademark Office before filing patent applications abroad. The purpose is to protect national security. It is possible under section 184, however, for the owner of an invention obviously unrelated to national security to lose its U.S. patent rights because of inadvertent failure to comply with unimportant technical requirements.

IPO testified in favor of amending section 184 in the 98th Congress. We

still believe such legislation could reduce the burdens and risks for patent applicants and owners. We recommend, however, that any legislation approved by the Subcommittee should not affect any pending court litigation. It would be unfair for Congress to change the law retroactively with respect to parties in litigation who might have made expenditures relying on possible invalidity of a patent.

Licensee Challenges to Patent Validity

We favor legislation the Administration has announced it is seeking to codify and clarify the law relating to the bargaining power of parties contracting to license technology. We testified on this legislation before the Subcommittee in 1984. The proposal concerns the 1969 decision of the U.S. Supreme Court in Lear v. Adkins and subsequent lower court interpretations.

We understand the Administration's proposal is to allow parties to a patent license to agree to give either party the right to terminate the license in the event of a validity challenge. The proposal also would sanction agreements obligating licensees to continue paying royalties during litigation if the license is not terminated.

Antitrust and Misuse Issues

Senator Leahy has introduced a bill, S. 438, to amend the antitrust laws as they relate to technology licensing, by ruling out per se violations and limiting damage recovery to actual damages. We have testified in favor of this type of legislation in the past, and continue to support it.

The Administration has indicated it also plans to seek legislation to limit the "patent misuse doctrine". While this legislation is supported in principle in the intellectual property community, IPO's Board of Directors has expressed concern in the past about the specific proposals that have been put forth by the Administration. There is a need to clarify the scope of the proposals through redrafting or fuller

explanation. We will study whatever legislative language is submitted by the Administration this year.

Trademark Intent-to-Use Legislation

I would like to mention one item of trademark legislation which is supported by IPO's Board of Directors. Under the Lanham Act, a U.S. company cannot file for federal registration of a trademark until after the mark has been used in interstate or foreign commerce. Often companies need to know whether a mark qualifies for federal registration before using it. Decisions on whether to invest in marketing a product or service under a particular name can better be made after knowing what trademark rights are available. Moreover, foreign companies applying to register trademarks in the U.S. are not subject to the same use requirements that apply to U.S. applicants. We are discriminating against our own nationals.

Experts in the trademark bar this year are studying possible legislation that would allow the filing of federal trademark applications on the basis of a stated intention to use the mark. Further study of the details is needed, including further study of the amount of time an intent-to-use applicant should be permitted before actual use of the mark is required. We are convinced, however, that some form of trademark intent-to-use legislation would greatly increase the value of the federal trademark registration system for U.S. companies. We hope that this topic can be on the Subcommittee's agenda during the 100th Congress.

COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Enactment of the 1982 legislation to establish the Court of Appeals for the Federal Circuit was a major step forward for the patent system.

Before 1982 there were numerous instances of lack of uniformity in patent decisions among the regional Courts of Appeals.

We realize judicial appointments are not within the jurisdiction of this Subcommittee, but we urge you as members of the full Judiciary Committee to help insure that appointees to the Court of Appeals for the Federal Circuit possess proper qualifications.

The central purpose for establishing the Federal Circuit was to reduce the widespread uncertainty of legal doctrine and lack of uniformity that existed in the administration of U.S. patent law. We believe it is critically important to appoint several judges to the court who possess experience in patent law and technology. Currently only three of the twelve positions on the court are filled by individuals who were experienced in patent law and technology at the time of appointment.

Given that about half of the workload of the Federal Circuit is patent cases, it is reasonable that about half of the twelve judges should have experience in the field. Professor Homer Blair of Franklin Pierce Law Center has just published an interesting article entitled, "The Court of Appeals for the Federal Circuit - Should Its Judges be Technologically Literate or Illiterate?", 27 IDEA 121 (1986).

STRENGTHENING PATENT RIGHTS ABROAD

IPO strongly supports current government efforts to strengthen intellectual property laws throughout the world for the benefit of U.S. industry. We suggest that the Subcommittee monitor and encourage these efforts.

Members of the Subcommittee no doubt are aware that intellectual property has been included as an agenda item for the Uruguay round of negotiations of the General Agreement on Tariff and Trade (GATT). We believe the United States should insist on an intellectual property code for the GATT with very high minimum standards for intellectual property protection. The code should have minimum standards for patents, trademarks, copyrights, semiconductor chip designs, and trade secrets.

It must be recognized that it will be very difficult to obtain agreement from a large number of countries to such an intellectual property code. Under no circumstances should the United States consider compromising the principles of effective intellectual property protection for purposes of obtaining a large number of signers. Ways must be found to give other countries incentives to adhere to the high standards.

The World Intellectual Property Organization (WIPO), a specialized agency of the United Nations headquartered in Geneva, also has underway a number of projects for improving intellectual property protection internationally. Of primary interest in the patent area is the WIPO plan to achieve "harmonization" of patent laws through a new multilateral treaty. We support active United States participation in this harmonization effort, but note that U.S. patent law should not be changed merely for sake of harmonization. It should be changed only on those points which will enable better protection for U.S. technology in this country and internationally.

The Subcommittee also should encourage the U.S. Trade Representative and the Department of Commerce to continue bilateral initiatives to eliminate weaknesses in intellectual property laws of our trading partners. The recent investigation of South Korean law under section 301 of the Trade Act is an example of a bilateral initiative which appears to have provided benefits for U.S. patent owners. We hope that any trade bill enacted this year can include an appropriate provision to encourage or require trade action against countries that fail to provide adequate and effective protection for U.S. intellectual property.

* * *

We appreciate this opportunity to present our views. I would be pleased to answer any questions.

IPO INTELLECTUAL
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March 10, 1987

The Honorable Dennis DeConcini
Chairman, Judiciary Subcommittee
on Patents, Copyrights & Trademarks
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

This is in reply to the three written questions you submitted to us following the hearing held by the Subcommittee on February 17. Thank you again for inviting us to testify. Our replies are as follows:

Question:

A number of you have identified industrial design protection as a legislative priority. Could you provide some specific examples where a manufacturer had problems obtaining or enforcing a design patent and thereby became a target for copyists?

Reply:

Copyright-like industrial design protection is needed in the United States to strengthen the incentives for quality product design. We believe that providing more encouragement for industrial designers and their employers will help make American products more competitive. Industrial design often is an important marketing tool.

Manufacturers have had problems obtaining or enforcing design patents in many reported court cases. In Famolare, Inc. v. Edison Brothers Stores, Inc., 202 USPQ 373 (N.D. Ill. 1979), for example, the court invalidated the design patent but also made a finding of copying. The court found that Famolare's patent covering a wavy design for shoe soles did not meet the non-obviousness requirement of patent law and therefore was invalid. The court found that the defendants, and indeed a significant part of the entire industry, had imitated the patent owner's design. The creator of the design would not have suffered its loss to copyists if effective industrial design legislation had been available.

Another example was submitted last year to the Senate Committee on Finance by Hillenbrand Industries, Inc. Hillenbrand introduced a new line of American Tourister luggage in 1982 with a unique series of vertical pleats and associated design features. An application was filed for design patent protection in 1982, but the patent did not issue until 1985. By that time, a number of import infringers had knocked off the American Tourister design and

entered the marketplace. See Hearing before the Subcommittee on International Trade of the Committee on Finance, United States Senate, 99th Cong., 2d Sess., on S. 1860 and S. 1869, May 14, 1986, at page 250.

Because of the perception in this country that the design patent system is ineffective, owners of designs often seek unsuccessfully to utilize legal remedies other than design patents, such as trademarks, unfair competition or copyright law. For example, in Digital Equipment Corp. v. C. Itoh and Co., Ltd., ____ F.Supp. ____, 229 USPQ 598 (D. N.J. 1985), the plaintiff was unable to establish trademark or copyright infringement even though the defendant admitted it intended to copy the appearance of the plaintiff's computer equipment.

We have heard of other examples of the need for more effective design protection in several industries, including outboard motors, boats, and home appliances. We expect witnesses from a number of industries will be willing to testify about their experiences.

Question:

Could you explain in more detail the problems associated with trademark fees and how the funds are being used?

Reply:

Last year Congress enacted Public Law 99-607 which, among other things, prohibits the Patent and Trademark Office from charging user fees in the public patent and trademark search rooms and libraries. The law states, "The costs of such rooms and libraries shall come from amounts appropriated by Congress."

As we understand it, the Patent and Trademark Office can make the automated trademark system now being used by trademark examiners available for use by members of the public when funds are available. Trademark records in paper form are and always have been accessible to the public. However, the Administration's 1988 budget does not request any funds for making the automated records available. It is in the public interest to disseminate patent and trademark information whether in paper form or in electronic form. The Administration should take the initiative to request the Congress to appropriate funds to make the automated trademark system publicly available.

P.L. 99-607 also requires the Patent and Trademark Office to terminate certain exchange agreements relating to trademark information by April 1, 1987. IPO explained its opposition to the trademark exchange agreements in hearings held by the Subcommittee on Patents, Copyrights and Trademarks in 1985. When government programs involve major expenditures and difficult questions of public policy, we believe such exchange agreements are not an appropriate vehicle for funding them. We believe the Office's automation programs should be funded by appropriations.

We believe it is especially important for Congress to have continuing oversight of the trademark operations and other programs of the Patent and Trademark Office which are funded by user fees. As a practical matter, government programs

supported entirely by user fees do not receive as much review in the Executive Departments and in the Office of Management and Budget as programs supported by appropriations. Careful control must be maintained over the level of trademark expenditures in order to keep user fees at levels that will not deter businesses from using the trademark registration system.

P.L. 99-607 requires the Patent and Trademark Office to provide a detailed report on finances to the Committees on the Judiciary. Commissioner Quigg's statement at the hearing on February 17 indicated that the report is being prepared. This report should provide information now unavailable on how patent and trademark fees are being used. We believe the report should explain, for every significant program in the Office's budget, how much of the cost is supported by patent user fees, how much by trademark user fees, and how much by appropriated funds.

Question:

(By Senator Hatch) As you may know, Senator Leahy and I have introduced S. 438, the Intellectual Property Antitrust Protection Act of 1987. This would require that all intellectual property licensing agreements (particularly the marketing of software in conjunction with hardware) be evaluated on the basis of their reasonableness. This "rule of reason" standard would permit the consideration of all relevant factors in weighing the competitive effect of some marketing practices. This will allow entrepreneurs to decide for themselves how to produce, distribute, and market discoveries. Although this is an antitrust measure, does IPO have a position on this bill? Is this something that IPO might support?

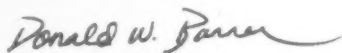
Reply:

IPO testified in favor of legislation similar to S. 438 in the 98th Congress. Although we have not yet had an opportunity to study the details of S. 438, we support the objectives of the bill.

Some judicial decisions dealing with the interface between the patent laws and the antitrust laws have placed unwarranted limitations on the ability of patent owners to license their technology. It can be demonstrated that intellectual property protection increases competition over the long term, and therefore complements the objectives of the antitrust laws.

By encouraging licensing, we can promote the diffusion of technology through the American economy. Reasonable freedom for licensors also will increase the value of patent rights, which will strengthen incentives for research and development. If requested, IPO will be glad to provide more detailed comments on S. 438 at a later date.

Sincerely,



Donald W. Banner
President

Senator DeCONCINI. Thank you.
Mr. Cleary?

STATEMENT OF J. MICHAEL CLEARY

Mr. CLEARY. Thank you, Mr. Chairman. On behalf of the U.S. Trademark Association, I want to thank you for inviting us here today to testify. My name is J. Michael Cleary, and I am a member of the board of directors of the U.S. Trademark Association. I am appearing here today at the request of USTA President, Guy Blynn, who was "iced in" in North Carolina last night and could not get out of his home State this morning. Mr. Blynn asked me to make several comments on his behalf, including giving you brief background as to what USTA does and what its role is and how you may call upon USTA to be of service; and, second, to address specifically two of the five trademark issues which were outlined in USTA's submitted statement.

In its 109-year existence, the association has developed a long tradition of providing essential and quality service to its members and to the public at large. The USTA, through its publications, its meetings and its forums, its newsletters and a wide range of other informational services is the source of information to which the worldwide trademark community, the media, business at large, the courts, various agencies of the Federal Government, and many other segments of the public look for information, reference materials and guidance on trademarks.

While those of us who are actively involved in the USTA are primarily attorneys, either in private practice as myself or with corporations, USTA nevertheless is an association whose membership reflects every aspect of the global economy. This is not surprising, because trademarks are clearly the life blood of competition and in all respects they make the exchange of goods and services possible, both domestically and internationally. In fact, it is virtually impossible to imagine, from either a business or a consumer standpoint, a world without trademarks.

Incidentally, I would like to add at this point that when I use the word "trademarks," I use that as an umbrella term to cover also service marks which are marks owned by retailers and restaurants, insurance companies, and the like, and also collective membership marks such as the union label, the growers' association marks and certain certification marks such as the Underwriter's Laboratory's mark and the Good Housekeeping seal of approval.

Trademarks perform many important functions, as most recently brought out in a statement by the third circuit in the *Canfield* case, where the court summarizes the five most important aspects of trademarks by quoting from previous testimony of this association before this subcommittee.

Turning to the trademark issues USTA believes will come before this subcommittee and Congress as a whole in the coming months, I would like to specifically address two of the issues which were in USTA's written statement. They are, first of all, the work being done by USTA's special committee, the Trademark Review Commission, and, second, the importance of the PTO's trademark operations being run effectively and efficiently.

With respect to the Trademark Review Commission, USTA plans to present to Congress for its consideration and hopefully early adoption several recommended changes of the Federal trademark statute, the Lanham Act. These proposals, which are scheduled for completion later this year, will be the result of more than 2 years of work by USTA. Moreover, they will reflect the ideas, suggestions and views of literally thousands of individuals.

In its work, the Trademark Review Commission [TRC] has evaluated the Lanham Act, State laws affecting trademarks, rules and the regulations of administrative agencies, particularly those of the PTO, and the case law from Federal and State courts and administrative agencies.

TRC sought input from some 50 other groups, including business groups and legal associations from around the country and has had meetings all over the country. All this has been done to assure that the report TRC issues and the conclusions it reaches will reflect the broadest possible consensus.

One subject to which the Trademark Review Commission has devoted a great deal of attention has been talked about now for I can recall several decades. It is an intent to use provision. Under the system we have it now in the United States, one must use a trademark before one can apply to register it. There have been new proposals, triggered by the *Crocker* decision of a couple of years ago, to change U.S. law so that U.S. citizens and corporations can also file based on an intent to use.

I do not know what the final report of TRC is going to say on this matter, but it will be addressed as one of the issues in the TRC report.

With respect to PTO's administration of registration provisions of the Lanham Act, this subcommittee and the House Subcommittee on Courts, Civil Liberties and the Administration of Justice are tasked with oversight responsibility. USTA strongly encourages this subcommittee to forcefully exercise its authority in this area.

There are two major areas over which USTA specifically urges this subcommittee to exercise its authority. They have to do with the issues of trademark user fees and trademark automation not only as they relate to trademarks but also to patent user fees and automation.

These issues were the subject of a great deal of attention in reports issued by three different committees of the last Congress. The problems which surfaced and which were aired at that time have not been resolved, and I can assure you that USTA stands ready to assist this subcommittee and the Congress in connection with your oversight responsibilities.

I believe one of the issues or questions which the chairman asked Commissioner Quigg had to do with the issue of when the public will have access to the automated trademark search system. This is a matter on which USTA has taken a strong stand in the past and it continues to support the provision of the authorization bill which passed last year, which prohibits the use of user fees to operate the public search room.

Mr. Chairman, again I want to thank you for the opportunity to be here, and again invite you to call upon USTA at any time if it may be of assistance.

Thank you.
[Submissions of Mr. Blynn follow:]

STATEMENT
OF
GUY M. BLYNN
CHAIRMAN OF THE BOARD AND PRESIDENT
THE UNITED STATES TRADEMARK ASSOCIATION

Mr. Chairman, The United States Trademark Association (USTA) appreciates and thanks you for the opportunity to present testimony at this general oversight hearing on patent and trademark law. It also looks forward to working with you and the other members of the Subcommittee and your staffs during the 100th Congress.

My name is Guy M. Blynn and I presently serve as Chairman of the Board of Directors and President of USTA. I am employed by USTA member R.J. Reynolds Tobacco Company as Deputy General Counsel and am also a member of the faculty of Wake Forest University School of Law, the Advisory Board to BNA's Patent, Trademark and Copyright Journal and the Board of Directors of the North Carolina Volunteer Lawyers for the Arts. I have been admitted to the Bars of the States of New York and North Carolina and the Federal courts in those states.

This statement is divided into four parts. First, it provides an introduction to USTA. Second, it defines trademarks and their importance to consumers, business and the economy. From there, it addresses trademark law and rights and how they differ from the other types of intellectual property. Finally, it sets forth the trademark issues USTA sees as particularly important for the 100th Congress.

USTA

USTA is a 109-year-old not-for-profit membership association. Since its founding in 1878, its membership has grown from twelve New York-based manufacturers to nearly 1800 members that are drawn from across the United States and from about 80 countries.

Membership in USTA is open to trademark owners and to those who serve trademark owners. Its members are corporations, advertising agencies, professional and trade associations, and law firms. USTA's membership crosses all industry lines and includes both small and large corporations (roughly 85% of the Fortune 100 companies are members), members of the manufacturing, retail and service sectors, and both small general law firms and firms that specialize in intellectual property. What this diverse group has in common is its shared interest in trademarks and its recognition of the importance of trademarks to business and consumers.

USTA has five principal goals. They are:

1. To support and advance trademarks as an essential element of effective commerce throughout the world.
2. To protect the interests of the public in the use of trademarks.
3. To educate business, the press and the public to the importance of trademarks in our international economy.
4. To play an active leadership role in matters of public policy concerning trademarks.
5. To provide a comprehensive range of services to its members that includes keeping them well-informed of current

trademark developments and in touch with professional colleagues.

USTA is governed by a volunteer Board of Directors elected annually from among its members. In addition, over 20 committees, consisting of over 500 volunteers, work with USTA's Executive Director and its small professional staff in carrying out USTA's objectives. These volunteers annually contribute thousands of hours to planning and implementing USTA's programs and services.

USTA's activities and programs are as extensive and varied as its membership:

- USTA publishes a variety of books and other publications, including *The Trademark Reporter*®, a bi-monthly law journal that is frequently cited as the authoritative publication in the fields of trademark and unfair competition law. It also provides a *Bulletin Service* which reports legal, legislative, regulatory and other intellectual property developments in over 140 jurisdictions around the world and it produces a series of *Executive Newsletters* which analyze, in non-legal terminology, developments and trends in the field of trademarks. The books it has published include U.S. Trademark Law: Rules of Practice, Forms & Federal Statutes; Handbook for the Executive as a Witness; The Trademark Law Handbook; Trademark Management; and Protection of Corporate Names: A Country by Country Survey. Forthcoming books include a handbook on trademark practice and procedure for business administrators and paralegals and an authoritative volume which will highlight and summarize the trademark, unfair competition and related laws of every state. USTA has also produced two films: "Trademarks: The Name Game", which is used by schools and others as a tool for educating the public about trademarks' role in the marketplace and "In the Client's Best Interest", an informative look at the difficulties trademark owners encounter in selecting new marks.

- USTA maintains an extensive, 2000-plus-volume library for use by its members and the public and operates a multi-faceted reference service which responds to thousands of requests each year. This reference service includes a Trademark Inquiry Program that offers editors and other members of the press a resource for learning the status, correct spelling and proper use of individual trademarks so that printed articles will not use trademarks incorrectly. Related to USTA's Trademark Inquiry Program is its Dictionary Listings Program. Through it, USTA works to obtain the cooperation of leading dictionary publishers and lexicographers in order that trademarks will be accurately designated in dictionaries and stylebooks.

- USTA conducts frequent educational programs and meetings. These programs include one-to-three day forums, in the United States and abroad, that are geared to a range of audiences. It also sponsors informal discussion groups (roundtables) where members discuss and often debate recent trademark law developments. USTA's Annual Meeting, which is the largest annual gathering of trademark professionals from around the world, regularly attracts over 1700 individuals from over 50 countries.

- USTA represents the broad public and private interests served by trademarks in legislative and regulatory proceedings and before the courts. Although it does not act frequently, it readily and actively participates whenever issues affecting all trademark owners and the purposes and functions of trademarks are involved. USTA also makes itself available to the United Nations, the U.S. Government and other organizations to meet with dignitaries from foreign countries who are visiting the United States and is, in fact, hosting a meeting today at its offices in New York for a delegation from the State Administration for Industry and Commerce of the People's Republic of China.

In light of the wide range of services it offers, the quality and number of resources at its disposal, and the active participation of its broad membership, it is not surprising that USTA has earned an international reputation as the authoritative source of information and expertise in matters relating to trademark and related unfair competition law. It is relied upon by domestic and international public policy makers and has left its imprint on state, federal and international law and legislation as well as on U.S. Trademark Office operations and policies.

By way of example, USTA's involvement was instrumental to the enactment of the Federal Trademark Act of 1946 (the Lanham Act), the Trademark Counterfeiting Act of 1984, the Trademark Display Act (the "Century 21" bill), the Trademark Reform Act (the "Anti-Monopoly" bill) and to the formulation and subsequent adoption by 46 states of the Model State Trademark Bill. In addition, the briefs prepared by USTA's Brief Amicus Committee offer the Association's expertise to the courts whenever major, fundamental trademark principles are at issue. One recent and noteworthy example of a court's reliance upon a USTA amicus brief occurred when the U.S. Court of Appeals for the Federal Circuit rendered its decision in the important On-Cor case which confirmed token use as a threshold standard for determining use in commerce for purposes of filing a trademark registration application.

Internationally, USTA has been recognized as an official non-government observer to the World Intellectual Property Organization (WIPO) since 1979 and it has and continues to be called upon to participate in informal discussions at the earliest stages of WIPO's trademark initiatives. In fact, I will be in Geneva, Switzerland at the invitation of WIPO's Director General later this month for an informal meeting on a project dealing with world trademark law harmonization. Other proposals USTA has reviewed and commented upon include revisions to the Paris Convention for the Protection of Intellectual Property, the draft WIPO Trademark Cooperation Treaty, and WIPO's suggestions for model national laws to stem the tide of counterfeiting. USTA is also studying the Anti-Counterfeiting Code and other suggestions for improving worldwide protection of intellectual property rights that may be promulgated under the auspices of the General Agreement on Tariffs and Trade (GATT) and is working with the U.S. Government on a variety of levels to reduce the trademark-related non-tariff barriers to trade that exist in many countries throughout the world. Finally, through its International Generic Word Program, USTA and its members cooperate with the U.S. Patent and Trademark Office in identifying and challenging the international registration of generic and merely descriptive terms as trademarks.

Regardless of its level of involvement in the public policy arena -- whether it is commenting on a specific piece of legislation, a proposed regulation, a government practice or procedure, a new treaty proposal or the merits of a case on appeal -- USTA addresses only those issues or subjects that have an impact on trademarks generally. As a matter of long-standing association policy, USTA does not become involved in issues that affect single industries or companies unless what is being discussed or recommended will have repercussions for the entire trademark system and all trademark owners.

The Importance of Trademarks

It is virtually impossible to imagine a world without trademarks (brand names) because consumers, businesses, as well as the free enterprise system, depend so heavily on them. Even the governments of non-market economies have accepted, albeit grudgingly,

ingly, that economic growth is frustrated when the use of trademarks is banned. Witness that the Soviet Union and other Eastern Bloc countries register trademarks and to a greater or lesser degree now allow branded products to circulate in their market-places.

Section 45 of the Lanham Act defines a trademark as "any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and to distinguish them from those manufactured or sold by others." Like other forms of intellectual property, trademarks are recognized valuable business assets of their owners, which at the same time serve an important public function.

In a very recent decision, the United States Circuit Court of Appeals for the Third Circuit, quoting a previous USTA testimony before the Patent, Copyright and Trademark Subcommittee, recognized the public function of trademarks as follows:

"Among other things, trademarks (a) foster competition by enabling particular business entities to identify their goods or services and to distinguish them from those sold by others; (b) facilitate distribution by indicating that particular products or services emanate from a reliable though often anonymous source; (c) aid consumers in the selection process by denoting a level of quality relating to particular goods or services; (d) symbolize the reputation and good will of the owner, thereby motivating consumers to purchase or avoid certain trademarked products or services; and (e) protect the public from confusion or deception by enabling purchasers to identify and obtain desired goods or services."

Accurately estimating the precise dollar value of a trademark to its owner is virtually impossible because the mark embodies a company's investment in building good will, brand-loyal customers and oftentimes its entire market image. It is useful, therefore, to consider a statement made nearly 30 years ago by counsel to The Coca Cola-Company:

"The production plants and inventories of The Coca-Cola Company could go up in flames over night. Yet, on the following morning there is not a bank in Atlanta, New York, or anywhere else, that would not lend this Company the funds necessary for rebuilding, accepting as security only the inherent good will in the trademarks 'Coca-Cola' and 'Coke'."

While trademarks are widely recognized as valuable property rights of their owners, their importance as one of the most cost-efficient and effective consumer protection devices in existence cannot be underestimated. Explaining this trademark function in "Consumer Education Forum", a publication of the American Council on Consumer Interests, attorney Bruce Jagger wrote:

"The trademark is an ancient and still vital consumer protection device which has far outlived any government in the history of man. It operates without the necessity of governmental intervention, except to aid in protecting it from poachers. The trademark serves both to reward a business and to protect the consumer by allowing the consumer to exercise his or her own judgment in the marketplace based upon a satisfactory or unsatisfactory past experience."

Trademark Law and Rights

The history of trademark protection is longer than that of any

other form of intellectual property. It can be traced to the use of potters' marks and stonecutters' signs and to the marking ("branding") of cattle and other animals. These practices predated man's ability to read and write and often the misuse of these symbols was punishable by death. In the intervening centuries, the motivation for and purposes of these types of markings have evolved into the principles that underlie current laws for the protection and enforcement of trademark rights.

Trademark rights are created under common law when a mark is used in connection with the sale of goods or services. The first person or business to use a mark in connection with particular goods or services is generally recognized as the trademark owner and is entitled to both the exclusive right to use the mark with such goods or services and the right to prohibit others from using the same or similar marks in connection with similar or closely related goods and services.

To enhance the common law right to trademark protection, Congress, over a period of more than 100 years, has enacted a series of trademark registration statutes. With the exception of the first, which was found unconstitutional, all of these statutes have been based on the Commerce Clause of the Constitution. Under the current statute, the Lanham Act (15 U.S.C. 1051 *et seq.*), the Patent and Trademark Office (PTO) operates a registration system that was specifically designed to encourage trademark owners to register the trademark rights they have acquired at common law.

In devising this registration system, Congress sought to encourage to the greatest extent possible the registration of all marks that are being used in interstate commerce. At the same time, it sought to reduce the use of marks that would deceive or confuse consumers. To do this it defined what trademarks would be registrable, and therefore permitted federal protection, and offered meaningful incentives and rewards to those trademark owners who participated in the registration process. In addition, it created administrative procedures whereby trademark owners could challenge the registration of marks by others, thereby reducing the demands that were made on the judicial system.

The Lanham Act was enacted forty years ago and it has generally proven itself to be highly effective and quite capable of protecting the interests of both consumers and business. Amendments to it have been infrequent and generally have been limited to clarifications necessitated by "aberrational" case law developments, to permit improvements in the PTO's registration procedures, or to make minor technical corrections of a "housekeeping" nature.

Trademarks and the 100th Congress

USTA believes that there are several trademark-related issues that will require the attention of the 100th Congress. They include:

1. The PTO's administration of the registration provisions of the Lanham Act.
2. The perceived need for substantive amendments to the Lanham Act to enable the statute to keep pace with changes in business practices and the world economy over the past 40 years.
3. The issue of gray market goods.
4. Ways to motivate some of the United States' trading

partners to improve the protection they afford the rights of U.S. intellectual property owners.

5. Consideration of the nomination of a new Assistant Commissioner for Trademarks.

With respect to the PTO's administration of the registration provisions of the Lanham Act, this Subcommittee and the House Subcommittee on Courts, Civil Liberties and the Administration of Justice are tasked with oversight responsibility. USTA strongly encourages this Subcommittee to forcefully exercise its authority in this area.

For decades, USTA and the PTO have had a very cordial relationship based on cooperation at all levels. This relationship has been mutually beneficial and has stood witness to the fact that the PTO is a federal agency whose trademark-related purposes and functions serve the needs of both the public and trademark owners through the efficient and timely registration of trademarks. Regrettably, however, for about the last six years this cordial relationship has been strained because the PTO seems at times to lose sight of its fundamental mission.

There have been two major areas in which USTA has consistently found itself in disagreement with the PTO in recent years -- trademark fees and trademark automation. And, in both areas, controversy has arisen because the PTO has pursued courses of action that appear to disregard the reasons why Congress created incentives to encourage the registration of trademarks.

The PTO's current fee system -- and how fee income is being treated -- was instituted under the guise of a "user fee" system. This is a misnomer as the fees charged by the PTO are nothing but a special tax imposed on one segment of the population, namely current trademark registrants.

If the PTO's trademark fees were in fact "user fees" they would be limited to the recovery of the actual cost of the service that is provided and they would take into consideration that the public at large is the ultimate beneficiary of the trademark registration system. Moreover, user fees would not be used to fund capital improvements like the PTO's trademark automation program or to correct problems arising out of years of neglect by the Commerce Department. Lastly, they would not be subject, as they currently are, to the sequestration provisions of the Deficit Reduction Act (Gramm-Rudman-Hollings).

The approach the PTO has taken to trademark automation is equally troublesome and has been very controversial almost from the start. Although the problems that have been encountered have been documented in large measure by the General Accounting Office, the media and members of the public (like USTA) in testimony before the PTO, this Subcommittee, the House Judiciary Committee and the House Government Operations Committee, and were the subject of a great deal of attention in reports issued by three different Committees last Congress, this attention seems to have had little effect in changing the PTO's approach.

As with trademark fees, the PTO approached trademark automation without regard to the interests of the public or the needs of trademark owners who rely, as Congress intended, on the trademark registration system. Monitoring this program and establishing how much it has cost thus far and will cost before it is completed must become major priorities for this Subcommittee and for others in Congress.

The second major issue USTA believes will come before the

Subcommittee before the end of the year is suggestions for several possibly substantive amendments to the Lanham Act. Largely, these recommendations will be the result of a major undertaking initiated by USTA two years ago.

As noted above, the current Federal Trademark Statute was enacted in 1946, just as World War II was ending. As business practices have changed dramatically and we have entered an age of global marketing and international competitiveness that could not have been anticipated over forty years ago, USTA believed it was reasonable, if not necessary, to thoroughly review the Lanham Act to determine whether it is still capable of serving the public interest and the needs of trademark owners and whether it is well-constructed to continue to accomplish its purposes in future years.

For this purpose, and without any pre-conceived notions of what such an analysis might conclude, USTA created a blue-ribbon panel of trademark specialists in corporations, law firms and academia. This panel, formed as a special committee of USTA, was named the Trademark Review Commission (TRC).

In its work, TRC has evaluated (i) the Lanham Act, (ii) state laws affecting trademarks, (iii) rules and regulations of administrative agencies, particularly those of the Patent and Trademark Office, and (iv) case law from the federal and state courts and administrative agencies. In addition, TRC has sought input and ideas from all of USTA's members, from the PTO, and from more than 50 business groups and legal associations around the country. It has conducted surveys, has sponsored roundtable discussions in major U.S. cities, and has met with and received comments and proposals from more than 25 business, industry and legal organizations. All this has been done to assure that the report TRC issues and the conclusions it reaches will reflect the broadest possible consensus.

One subject to which TRC has devoted a great deal of attention deserves special mention. It is the question of whether the United States should alter its trademark law to allow businesses to file registration applications with the PTO based on their intention to use a trademark rather than the current system under which applications to register a trademark must be preceded by actual use in commerce. This issue has been the subject of debate for nearly a decade but has gained greater significance recently because of the growth of international commerce and the fact that most other countries do not require actual commercial use of a mark as a prerequisite to filing for registration. It also stems from changed marketing realities that have forced business' growing dependence on token use as a necessary vehicle to circumvent the current use standard required for registration.

TRC has completed an exhaustive study of how such a system would operate in a country like the United States where registration rights have traditionally been based on use in commerce and has considered a variety of proposals for how such a system would be implemented. Representative of the thoroughness of this evaluation is USTA commissioning a leading constitutional law scholar to analyze whether such a system would be consistent with the Commerce Clause of the Constitution.

Although TRC's work is not completed -- it anticipates having a draft of its final report prepared for circulation and comment at USTA's Annual Meeting which will be held the end of April, and will render its final report to the USTA Board of Directors in September -- there is a general expectation that it will conclude that some amendments to the Lanham Act are warranted. In this event, USTA looks forward to the opportunity of presenting these

recommendations to Congress and to working with members of this Subcommittee and others inside and outside of government toward their early enactment into law.

The third trademark-related issue that may be actively pursued during the 100th Congress is resolution of the question of whether gray market goods should be allowed entry into the United States. USTA, which has taken a position on the trademark aspects of this issue and is filing an amicus brief in the COPIAT case now before the Supreme Court, has carefully evaluated the powerful legal arguments that are made on both sides of the question. Regardless of the decision that may be forthcoming from the Supreme Court, USTA believes that focus of interested parties' efforts will remain on Congress, because only it can decide the ultimate question which is not what the law is now, but what the law should be in the future.

A fourth major issue involves the relationship of intellectual property to the United States ability to compete effectively in the international marketplace. In this area, Congress must not only consider whether the laws of the United States should be changed but the manner in which our country's trading partners treat the trademark rights of U.S. businesses under their own national laws.

In the latter case, both as a legal and a practical matter, many foreign countries' laws fall short of even the minimal of acceptable standards. Some foreign systems tolerate and even encourage counterfeiting, trademark piracy, trademark infringement and trade dress infringement. Some, as a matter of law, do not allow U.S. businesses to protect those non-functional elements of their products' presentation which make them distinguishable and recognizable to foreign consumers. Such deficiencies dramatically affect the international competitiveness of the United States.

Although it does not have the expertise to comment on whether these problems are most effectively resolved through bi-lateral negotiations, through multi-lateral agreements, or through changes to our own country's trade laws, USTA is making every possible effort to assist officials at the Patent and Trademark Office and in the Office of the U.S. Trade Representative in identifying the problems USTA member companies encounter in establishing and protecting their trademark rights abroad. In recent months, it has also dedicated its energies to participating in cooperative efforts aimed at identifying what the minimum standards for trademark protection should be. These efforts will continue to be complemented by USTA's ongoing international programs and activities.

Finally, USTA anticipates that in the near future Congress will be asked to confirm the nomination of a new PTO Assistant Commissioner for Trademarks. The present Assistant Commissioner for Trademarks, Margaret M. Laurence, who has expressed her plans to retire, has rendered important service to the trademark system and to the trademark community for many years. USTA believes that it is vitally important that the credentials and abilities of the individual nominated to succeed her be carefully considered.

Conclusion

Within the last few years, Congress, the Administration, and the general public have increasingly come to appreciate the contributions that all forms of intellectual property make to the vitality of our nation's economy and the ability of U.S. business to compete in the international marketplace. Accordingly, impor-

tant steps have been taken to enhance the ability of owners of federally-registered trademarks and other intellectual property rights to establish and enforce their rights in the United States and around the world. As this process continues during the 100th Congress, USTA makes itself available to be of assistance to the Chairman and members of this Subcommittee.



THE UNITED STATES TRADEMARK ASSOCIATION

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EXECUTIVE OFFICES

March 2, 1987

BY MESSENGER

The Honorable Dennis DeConcini, Chairman
Subcommittee on Patents, Copyrights and Trademarks
SH 327 Hart Senate Office Building
Washington, D. C. 20510

Dear Mr. Chairman:

I sincerely regret that severe weather conditions in North Carolina prohibited me from being present at your Subcommittee's February 17 oversight hearing on patent and trademark law, and I appreciate your courtesy in permitting USTA Board member J. Michael Cleary to appear for me on behalf of the Association.

Responses to the supplemental written questions you requested USTA to answer in your February 18 letter are enclosed. In answering your question on trademark fees, USTA took the opportunity to comment as well on the question you posed to Commissioner Quigg about public access to the automated trademark system. Although you did not solicit USTA's views on this specific matter, I believe that its significance warranted particular attention/consideration.

Thank you for your interest in trademarks and for providing USTA the opportunity to participate in the Subcommittee's deliberations. Personally and on behalf of the Association, I look forward to working with you and the members of the Subcommittee on other occasions in the future.

Sincerely yours,

Guy M. Blynn
Guy M. Blynn
Chairman of the Board
and President

GMB:gh
Enclosures

cc: The Honorable Orrin G. Hatch (w/enclosures)

RESPONSES TO SENATOR DeCONCINI'S SUPPLEMENTAL QUESTIONS
OF FEBRUARY 18, 1987

Question 1: "A number of you have identified industrial design protection as a legislative priority. Could you provide some specific examples where a manufacturer had problems obtaining or enforcing a design patent and thereby became a target for copyists?"

Response: USTA has not taken a position on industrial design protection legislation but, through its Federal Legislation Committee, it is considering this issue with a view to whether enactment of this type of protection would have an indirect, and possibly unintended, impact on trademark law and rights.

Question 2: "Could you explain in more detail the problems associated with trademark fees and how the funds are being used?"

Response: The problems associated with trademark fees and how the funds are being used date back to the 1980 enactment of Public Law 96-517, which vested exclusive authority to establish and collect trademark fees with the Commissioner of Patents and Trademarks. Even before rules implementing this law could be promulgated, the then Commissioner sought (and received) authority to double from 50 to 100 the percentage of costs these fees would recover, and to expand dramatically the specification of those costs which would be recoverable. In addition, certain members of Congress immediately proposed that trademark fee income should be diverted to fund such things as Federal juvenile justice and drug enforcement activities.

Before detailing some of the problems which USTA finds most troublesome, it should be emphasized that USTA and its members do not oppose the concept of paying fees so long as the fees are not a threat to the principles, purposes and viability of the Federal Trademark System, and so long as the income generated by trademark fees is used exclusively to fund current trademark registration activities of the PTO. In addition, because trademark fees are based on cost recovery, USTA believes that there must be clear and meaningful assurances that costs will be kept under control and that fee revenues will be spent wisely.

While statements made by Congress and the Administration have endorsed these principles, USTA has seen them thwarted and undermined. Although the following list is not comprehensive, I believe it will substantiate USTA's view.

A.

Fees should not threaten or undermine the principles, purposes and viability of the Federal Trademark System.

The Federal Government began registering trademarks over 100 years ago, with the goals of promoting free and fair competition and protecting the public against the use of confusing or deceptive trademarks. To achieve these purposes, Congress established certain criteria for the marks that would be registrable and offered rewards to those businesses which presented marks meeting those criteria for entry on the public record.

Thus, at first blush, it would appear that all fees charged to those who place their marks on the public record through trademark registration are inconsistent with this Congressional intent, because they only can be justified to the extent that the Registration System is designed to serve only the private interests of businesses who use the System. However, since, in

addition to providing an enormous public benefit, those who utilize the Registration System do realize some private benefits, no one seriously urges that no fees at all should be charged. Every user of the System is willing to pay a fair fee.

Since the beginning of FY 1983, the Commissioner has exercised the authority given him by Congress to set and collect fees at levels that go beyond what is fair; in addition to demanding that businesses pay the costs of registering their trademarks, the Commissioner has required them to underwrite the costs of the trademark system's very existence. He has even gone so far to suggest that members of the public who wish to obtain information about what is on the public register--information which, as a matter of law, they are charged with knowing--should pay for that right.

Last year, as part of the PTO's Reauthorization bill, Congress, with the full support of USTA and other interested groups, sought to correct this situation, in part, by statutorily providing that the public search room should not be funded by fees and requiring the Commissioner to seek an appropriation for this purpose. In doing so, it sought to restore for the first time in nearly five years some small measure of public support for the nation's trademark system. Nonetheless, the Commissioner and the Administration seem intent on undermining this explicit Congressional dictate.

For example, in your question to Commissioner Quigg about when the PTO's automated trademark search system would be available to the public, he responded that the PTO is faced with "a bit of a dilemma" because while it has been told not to use any fees for automating the search room, it does not have the taxpayer money to do so. As to why the PTO does not have the taxpayer money to do so, the answer is simple--it hasn't asked! At no place in its FY 1987 or FY 1988 budget submissions did the PTO request from Congress any funds to provide for an automated trademark search room.

B.

If fees are charged, the income they generate should be used only to fund current trademark registration activities of the PTO, i.e., the actual cost of processing a given application to register.

The PTO has two responsibilities with respect to trademarks. First, it is to register those marks that qualify under the Lanham Act. Second, and equally important, it is to make available to the public a searchable record of the marks it has registered and that are pending registration. To fail in either of these areas is to undo the purposes of the federal trademark registration system. As stated above, however, the trademark fees presently being charged by the Commissioner are not only the exclusive source of funding for the actual registration process, they are being viewed as the exclusive source of financing for the system's very existence. Further, they are being diverted to fund government activities that have nothing whatsoever to do with trademarks.

Over the past five years, the fees paid by current applicants have been used to undo a legacy which was termed a "national disgrace"--to clear enormous backlogs at the Office and to finance its major, capital-intensive automation program. During this period, the PTO has received virtually no appropriations to support its responsibilities under the Trademark Statute.

On both practical and philosophical levels, use of fees to finance automation is particularly troublesome because it

presumes that current participants in the registration process alone should pay the cost of automating over 100 years of records and of making it possible for the PTO to accomplish its mission now and for decades to come. USTA believes that at minimum, the upfront capital costs of automation should not be charged to current applicants.

Despite Congressional agreement with this perspective, the PTO has sought no appropriations for its trademark automation program from Congress. Congress has stated its view on this situation twice. The first was when it gave the Commissioner the authority to charge cost-based fees in 1980. At that time, it specifically stated that fees should be based on actual processing costs and specifically excluded from those costs those associated with automation. The second instance was when Congress reauthorized the PTO last year. In that legislation, Congress stipulated that automation should be funded on a 70% appropriations/30% fees basis, a ratio intended to reflect the PTO's capital expenses with respect to automation. The PTO and the Administration have ignored both of these limitations and to date, not one of the PTO's budget submissions have included a specific request for appropriated funds to automate trademarks.

Trademark fee revenues are also being used for non-trademark activities of the Federal Government. They are subject to the Deficit Reduction Act and have been diverted to the General Treasury under its sequestration provisions. USTA believes that trademark fee income is being used in part to finance the PTO's patent-related responsibilities, particularly those associated with patent automation. Proving this has been impossible, however, due to the vagaries of the PTO's internal accounting procedures and to its continued pursuit of systems that are designed to support both trademark and patent activities. This latter effort has contributed significantly to the major cost-overruns and the delays associated with the PTO's trademark automation program.

C.

There should be meaningful assurances that costs will be kept under control and that fees will be spent wisely.

The PTO has no incentive to control its costs:

° In submitting its budget request for FY 1982, the last year before cost-based fees went into effect, the PTO requested an appropriation of approximately \$8 million for the Trademark Process line item and it projected that 55,300 new applications would be received. This compares to a budget request of \$16.2 million for the Trademark Process line item in FY 1988, a year in which it expects 70,800 new applications will be filed. Thus, even though filings are budgeted to increase only 28%, costs are budgeted to increase by more than 100%. But, these costs are not the only ones to be paid out of fee revenues; in addition, the PTO plans to spend an additional \$5 million in trademark fee income for activities which fall under its Information Dissemination and Executive Direction and Administration line items.

° In FY 1983, the PTO embarked on its automation project stating that Trademarks would be fully automated by the end of 1984 at a total cost of \$6 million. Today, trademark automation is still years from completion and its total cost is expected to be \$60 million.

° Since cost-based fees were instituted, the Commerce Department's Public Advisory Committee for Trademark Affairs, with the support of the General Accounting Office and the

Commerce Department, has sought to obtain meaningful income and expense reports from the PTO. USTA, in support of this effort, provided, at its own cost, the services of a professional accounting firm to lend assistance to the Public Advisory Committee. Three years later, the PTO is still objecting to major elements of the reporting format that was suggested by the professional accounting firm, and is refusing to provide the Committee with a consolidated statement. Not surprisingly, the difficulties are centered around the costs of automation and how trademark fee revenues are allocated to the non-Trademark Process line items in the PTO's budget.

USTA fully appreciates the need to reduce the federal deficit and it recognizes that some level of "user fees" are appropriate. But, the present system is not working satisfactorily, and USTA is particularly anxious to work with Congress in resolving these problems.

Question 3: "Mr. Blynn, could you expand upon the USTA's position on the gray market/parallel import issue?"

Response: USTA believes that while the gray market/parallel import issue directly involves trademarks, it is not exclusively a question of trademark law. It also raises important international trade, antitrust and other concerns on which USTA is not in a position to comment.

Nonetheless, active debates which present persuasive and compelling arguments on both sides of the issue have been taking place among USTA's members and throughout the entire trademark community for several years. For example, just since 1982, USTA has devoted major program segments at five of its forums and Annual Meetings to the topic (the most recent being a major debate at its 1986 Annual Meeting), has published articles on it in The Trademark Reporter® (e.g., "The History and Present Status of Gray Goods", 75 TMR 433; "Restricting the Gray Market in Trademarked Goods: Per Se Legality", 76 TMR 363) and has released a thorough unbiased White Paper on the subject (copy enclosed).

USTA'S Board of Directors adopted the following position when it met on September 9, 1986:

"The United States Trademark Association disapproves parallel imports when such imports are likely to deceive consumers as to the origin, characteristics, qualities, warranties or other similar elements of the imported goods."

"At the present time, USTA neither approves nor disapproves parallel imports when such imports are not likely to deceive consumers as to the origin, characteristics, qualities, warranties or other similar elements of the imported goods."

This resolution and the Association's opposition to S.2614 (Chafee) of the last Congress were conveyed to the Senate Finance Committee in a letter dated September 16, 1986 (copy enclosed).

RESPONSE TO SENATOR HATCH'S SUPPLEMENTAL QUESTION
OF FEBRUARY 18, 1987

Question: "You mentioned that your Trademark Review Commission has given significant consideration to changing the Lanham Act to permit registration on the basis of a mere intent to use, rather than the current actual use standard. If registration were allowed on the basis of a mere intent to use, would it not be possible that large companies could register and tie up hundreds of attractive tradenames that they may never use or use at very distant future time? Could this have any anticompetitive effects if companies monopolized hundreds of tradenames solely to prevent others from using them?"

Response: As the largest organization in the United States devoted to the trademark concept, The United States Trademark Association counts among its Regular Members, and among the clients of its Associate Members, trademark owners of all sizes. Thus, the Association has the advantage of the perspective of businesses of all sizes and varieties.

The question which is posed assumes a premise which is not necessarily accurate. That premise is that a trademark system such as our current one, based upon actual use (rather than intent-to-use), provides no possibility of large companies registering and "tying up" hundreds of attractive trademarks. In fact, the possibility of this happening would be no greater under an intent-to-use system than it is under the present system, where it is limited only by the respect for the system which trademark owners generally have and the safeguards (such as the requirement of a registrant's demonstrating use of its trademark both during the sixth year of registration and at the time an application is filed to renew the registration) which are provided for in the system. Indeed, every other jurisdiction in the world (other than the Philippines) has based its trademark system on some form of intent-to-use rather than actual use, and there is no evidence of abusive banking by large corporations.

Large corporations find the present "use" system to be entirely manageable.* While there is expense involved, the amount of that expense, while totaling millions in the aggregate for all businesses, is relatively insignificant for individual businesses. If any large company wanted to register and tie up hundreds of attractive trademarks, it has the resources to make the use necessary to do so easily. In contrast, it is small business which has the most difficulty with a system based upon actual use. How does a small businessman entering the marketplace for the first time, without facilities and without trade contacts, make the necessary use of a trademark on goods of

* The present "use" system is described in the decision of the Court of Appeals for the Federal Circuit in Ralston-Purina Co. v. On-Cor Frozen Foods, Inc. (copy enclosed).

interest in order to acquire rights without adopting the risky strategy of waiting until he is geared for a full-scale market introduction? Such use can be made only with great difficulty, if at all.

In constituting its Trademark Review Commission, The United States Trademark Association was careful to balance its membership, so that all points of view could be represented. That is why its membership includes corporate trademark experts, attorneys in private practice, and members of the academic community.

Not surprisingly, therefore, the Commission's membership has been acutely aware of even the slightest potential for mischief which might be inherent in its proposals involving intent-to-use. The driving force behind an intent-to-use proposal is not one of perceived advantage for large corporations; rather, it truly is one of principle. Those members of the trademark community who urge the adoption of an intent-to-use system do so because of the honesty and fairness inherent in that system, as contrasted to the honoring of form over substance inherent in the present system.

While the Commission has not adopted a final position, and, until it is presented with the Commission's final report, the Association's Board of Directors will not have had an opportunity to adopt any of the Commission's recommendations as Association policy, I do not believe it improper for me to share some of the Commission's thinking regarding intent-to-use.

While the details of an intent-to-use proposal remain to be finalized, it is clear that, if the Association proposes a change to intent-to-use, that proposal will be accompanied by other proposals which will insure, far better than the current statute insures, that trademarks which are not in use on a bona fide commercial scale after some period of time, measured from the filing of an application or the grant of a registration, are removed from the Register and, thereby, are made available for adoption by others. This is likely to be achieved through a fair and reasonable requirement that evidence of use on a bona fide commercial scale be filed with the Patent and Trademark Office at some specified time.

It is reasonable to require a high quantum of use at this time, since such use can be made by a business--large or small--with a greater degree of confidence that such use will not violate anyone else's prior rights than is available at any earlier time. If a requirement of use on a bona fide commercial scale were imposed prior to a mark having been subjected to the registration process, a large corporation would be subjected only to the risk of financial loss. A small business, however, would be subjected to the significantly greater risk of losing its entire net worth.

In sum, the Association does not believe that any proposal for registration on the basis of intent-to-use would be put forth without ample and obvious safeguards against the potential for the anticompetitive hoarding of hundreds of trademarks that their registrants may never use or use only at some undefined very distant future time.

United States Court of Appeals for the Federal Circuit

RALSTON PURINA COMPANY,	)	Appeal Nos. 84-682
	)	and 84-728.
Appellant/Cross-Appellee,	)	
	)	
v.	)	
	)	
ON-COR FROZEN FOODS, INC.,	)	
	)	
Appellee/Cross-Appellant.	)	Opposition No. 64,966.

DECIDED: October 15, 1984

Before MARKEY, Chief Judge, SKELTON, Senior Circuit Judge, and
MILLER, Circuit Judge.

MILLER, Circuit Judge.

These are consolidated appeals from the Patent and Trademark Office Trademark Trial and Appeal Board ("board"), opinion reported at 220 USPQ 567 (TTAB 1983). In Docket No. 84-682 Ralston Purina Company ("Ralston") contests the board's decision sustaining the opposition of On-Cor Frozen Foods, Inc. ("On-Cor"), to Ralston's application to register the mark ENCORE for cat food. The board premised its decision on its conclusion that Ralston's first use of Encore was in connection with "a product other than that which was intended to be identified by the mark used thereon," and that Ralston's application was, accordingly, void ab initio.

In Docket No. 84-728, On-Cor contests the board's holding that Ralston's mark ENCORE does not so resemble On-Cor's registered mark ON-COR for frozen food products for humans as to be likely, when applied to Ralston's cat food, to cause confusion.

We affirm the board's decision on the likelihood of

confusion issue and reverse its decision sustaining the opposition on the basis that Ralston's application was void ab initio.

Background

Ralston's application was filed June 24, 1980, reciting a date of first use of April 5, 1980.^{1/} On-Cor filed its opposition on August 10, 1981, as the owner of incontestable registrations for ON-COR and ON-COR with a design.

Ralston has been involved in the development of a new cat food concept since late 1979 or early 1980, defined as a cat food which had a gravy coating and could be served dry or, if water were added, would be a moist gravy-covered cat food. The development project has been known as the ALL WAYS concept. There has been no actual advertising of ENCORE cat food. However, in September of 1981 Ralston made an expenditure of approximately \$10,000 to prepare story boards in the development of brand names for the ALL WAYS product, some of which boards were for ENCORE and others were for the mark EASY PLEASINS. On-Cor has shown long usage, extensive advertising, and substantial sales of its products under the ON-COR mark and has built a successful business around that mark.

Likelihood of Confusion Issue

In holding for Ralston on this issue, the board, as On-Cor points out, recognized that there are at least two cases holding that marks for human food and pet food are likely to lead to confusion, viz. V.I.P. Foods, Inc. v. Vulcan Pet, Inc., 210 USPQ 662 (D. Okla. 1980), and American Sugar Refining Co. v. Andreassen, 296 F.2d 783, 132 USPQ 10 (CCPA 1961). However, it cautioned that "there is no per se rule regarding food items but that each case must be decided on its own facts." It noted that

^{1/} Discovery revealed that the first (and only) use was on June 5, 1980, when an interstate shipment was made of one of Ralston's regular line, dry cat foods under the mark ENCORE. The shipment consisted of twelve 28-ounce boxes and the price was \$4.13.

in American Sugar the marks were identical and opposer had been selling its human food product under the mark DOMINO since 1891 and had a valid registration since 1901; that in Vulcan Pet both parties were using the same mark VIP or V.I.P., with similar logos, and there was evidence of actual confusion. The board made clear that there is no dispute that there is a phonetic identity between applicant's and opposer's marks, but that the rule that any one of three factors (similarity in sound, meaning, or appearance) may be sufficient to indicate likelihood of confusion does not necessarily do so, citing Sure-Fit Products Co. v. Saltzson Drapery Co., 254 F.2d 158, 117 USPQ 295 (CCPA 1958). "We take that to mean," the board said, "that if the other two factors are so different as to outweigh the single similarity, an opposite result could be reached." It agreed with Ralston that the respective marks do not look alike and rejected On-Cor's argument that, because of phonetic identity, the marks would necessarily have the same meaning to purchasers. It reasoned that the mark ENCORE could be considered to have the connotation of "an additional performance," whereas the mark ON-COR "does not necessarily suggest the same image." Finally, the board effectively concluded that it is unlikely that, given the differences in the marks and the goods, purchasers familiar with ON-COR would mistakenly believe that ENCORE cat food was an addition to or somehow associated with On-Cor's frozen food items.^{2/} We agree.

Validity of Application Issue

The basis for the board's conclusion that Ralston's

^{2/} The board observed that it was aware of testimony that there are companies which manufacture and sell both human and pet foods and that Ralston is one such company, but pointed out that there is no evidence that both types of goods are ever marketed by these companies under the same product marks. Although the board did not comment on On-Cor's argument regarding the same channels of trade, its finding that On-Cor's principal channel of trade is through supermarkets to the retail customer indicates that the point was considered.

application was void ab initio is the board's misapprehension of the law, viz. that "bona fide initial use" requires that the goods so used be identical to the goods the mark is intended ultimately to identify.^{3/} Here, the board said, "the product shipped was not the ALL WAYS cat food under development but was one of the dry cat foods already in applicant's [Ralston's] line." It pointed out that the ALL WAYS cat food was not yet marketable and that Ralston's product manager testified that, as of July 21, 1982, there were still three major things to complete before test marketing could begin: product, packaging, and brand name; also that test marketing was not expected to occur until some time after July 1983. "This appears to be a classic case," the board said, "of [wrongfully] attempting to reserve a mark until there is a product on which it may be used. We do not believe that the liberality of the token use doctrine extends this far," citing Gay Toys, Inc. v. McDonald's Corp., 585 F.2d 1067, 199 USPQ 722 (CCPA 1978); CPC International, Inc. v. The Seven-Up Co., 218 USPQ 379 (TTAB 1983); PRF Corp. v. Acme Quilting Co., 218 USPQ 276 (TTAB 1982); Richardson-Vicks, Inc. v. Franklin Mint Corp., 216 USPQ 989 (TTAB 1982); and Times Mirror Magazines, Inc. v. Sutcliffe, 205 USPQ 656 (TTAB 1979). All of these cases are distinguishable from the case before us. In Gay Toys, the applicant claimed use of BIG MAC for toy trucks, but there were no such toy trucks in existence--only a plaster mock-up; in CPC International, the board found that the applicant had no definite plans either at the time of the token shipment of goods or at the time of trial to continue use of the involved

^{3/} The board said it is clear that it is possible to create trademark rights by a bona fide initial use of a mark in commerce on a product followed by activities which would indicate a continuing effort to place the product on the market on a commercial scale, citing La Maur Inc. v. International Pharmaceutical Corp., 199 USPQ 612 (TTAB 1978). However, in that case the involved "product" was toothpaste, and it was assumed by the board that this included all types of toothpaste, including nontherapeutic, toiletry-type toothpaste.

mark in connection with a specific product; in PRF Corp., the applicant's mark was not used on the goods in question until after the filing date on October 4, 1976, as shown by invoices indicating that first shipments commenced around the end of October of 1976; in Richardson-Vicks, the board found that, at the time of shipment, there was no specific product or products contemplated to be sold under the applicant's mark;^{4/} and in Times Mirror, the goods were described as "monthly magazine," but there was no record evidence that a magazine was currently published.^{5/}

4/ The board in that case said that--

it has been recognized in recent years that in view of the expense of introducing a new product on the market on any scale and the risk attached thereto prior to the screening process involved in seeking federal registration, a token sale or a single shipment in commerce, with the color of a bona fide transaction, may be sufficient for the purpose provided it is followed by other shipments or accompanied by activities or circumstances which would indicate a continuing effort or intent to continue such use and place the product on the market on a commercial scale. See: La Maur Inc. v. International Pharmaceutical Corporation [note 4, supra].

Richardson-Vicks, Inc., 216 USPQ at 991.

5/ The Times Mirror board pointed out that--

the fact that a sale or shipment of goods bearing a trademark was designed primarily to lay a foundation for registration does not, per se, invalidate any such application or a registration based thereon. Moreover, it does not make any difference that there may have been a lapse of time between this first shipment and any subsequent ones providing that there is evidence, during this period, of activities or circumstances which would tend to indicate a continuing effort or intent to continue such use and place the product on the market on a commercial scale within a reasonable time, as established by practices in the particular trade.

Time Mirror Magazines, Inc., 205 USPQ at 662.

Moreover, the proper question is not, as the board said, whether the "liberality" of the token use doctrine extends so far as to cover this case, but, rather, whether the "identical goods" test applied by the board to this case is invalid considering the realities of the marketplace. Amicus United States Trademark Association, taking no position on the question of whether registration should issue for Ralston's ENCORE mark for cat food, argues that "tremendous expenditures and financial risks are involved in developing and introducing a new product on a national scale" and that it is "common practice, dictated by the commercial realities, for a product as well as its brand name, to be extensively test marketed, and there are frequently modifications of the original product concept." Amicus quotes from Leitten, Establishing and Protecting Trademarks: A Look at Token Use, U.S.T.A. Executive Newsletter No. 41, 1983, regarding the recommended manner of first use:

If the product which will be offered commercially is available, then that product should be involved in the initial sale. It can be expected, however, that in most instances the specific new commercial product will still be in the development stage at the time the trademark for the new product is selected. After all, the entire token use doctrine was developed to deal with the gap which arises between mark selection and final product commercialization. Therefore, when the final product form has not yet been developed or if development is ongoing, care should be taken to use a currently available version of the new product (i.e., the current prototype) or to select the closest available product in the company's present line.

The arguments of Amicus are not unlike statements by the board in other cases, such as those quoted in notes 5 and 6, *supra*. Even more on point is the board's statement in E.I. du Pont de Nemours & Co. v. G.C. Murphy Co., 199 USPQ 807, 813 (TTAB 1978):

Insofar as the change of product is concerned, the record is clear that the formula and positioning of the current "EASY CARE" paint is different from that employed in the test market, namely, a budget type paint vis-a-vis a premium-priced paint. But, both products are paint products with substantially similar chemical ingredients, although pos-

sibly differently formulated [the only difference is essentially the omission of "TEFLON E" from the current product]; both product lines offered a consumer a washable, water-base, flat finish paint which would be applied in the same ways; and both products were distributed through some of the same trade channels, namely, discounters, mass-merchandisers, and the like. In essence, opposer marketed paint under the "EASY CARE" mark in the test market, and it continues to market "EASY CARE" paint. The inherent and identifiable character of the goods remain the same. There have been a number of decisions holding that a change in the nomenclature of a product, the formulation or the primary purpose of a product, or even a change in a type of product does not constitute an abandonment of the mark used therewith. [Citations omitted; emphasis supplied.]

See also La Maur Inc. v. International Pharmaceutical Corp., note 4, supra.

We are persuaded that the change in formulation of Ralston's cat food resulting from the ALL WAYS project has not changed the "inherent and identifiable character" of the product used in Ralston's token shipment, as described in its application.

Accordingly, we hold that Ralston's application was not void ab initio.^{6/}

AFFIRMED IN PART; REVERSED IN PART

^{6/} On-Cor also contests the board's failure to consider the issue of abandonment, which it asserts took place by reason of more than two consecutive years of nonuse by Ralston. However, we are satisfied that Ralston has rebutted any prima facie showing of abandonment arising from nonuse of its mark for two consecutive years by evidence of its intent to resume such use. As related earlier, Ralston has had an ongoing development project (ALL WAYS) under which it prepared story boards in the development of brand names for the ALL WAYS product, some of which boards were for ENCORE. Moreover, it was only prudent for Ralston to refrain from use of its mark following ON-COR's filing of its opposition on August 10, 1981.

Senator DeCONCINI. Thank you, Mr. Cleary. We appreciate it and indeed we will call upon you. Next on our panel is Mr. Kline.

STATEMENT OF ROBERT C. KLINE

Mr. KLINE. Thank you, Mr. Chairman. I will summarize our written statement with the following brief remarks and thank you for indicating that our statement will become part of the record.

I appear here today as the president of the American Intellectual Property Law Association, which I will refer to as AIPLA. AIPLA is a nationwide organization having a membership of more than 5,300 lawyers engaged in the practice of all aspects of intellectual property law, which includes patents, trademarks, copyrights, trade secrets, unfair competition, and licensing.

AIPLA membership includes lawyers in private, corporate, and Government practice, as well as lawyers associated with universities. For the most part, these lawyers represent both domestic and international clients.

Our statement, Mr. Chairman, addresses four broad areas that we feel need to be considered from the standpoint of improving the intellectual property system. The four broad categories are, first, the law; second, the operation of the Patent and Trademark Office; third, the enforcement of patent rights; and, fourth, the protection abroad of U.S. intellectual property rights.

As to the law, the AIPLA statement addresses four items for consideration. They are process patent rights, patent term restoration for agricultural and chemical products, licensee challenges to patent validity, and the protection of industrial designs of useful articles. Each of these items has been the subject of previous legislation, and we will be happy to work with your subcommittee staff with a view toward successful consideration of legislation in this Congress.

The next part of our statement deals with the operation of the Patent and Trademark Office. This is an extremely important subject, since it is essential to a sound patent system, that the Patent and Trademark Office do a top quality job in an effective and efficient manner. Quality is more important than quantity or setting numbers to meet a predetermined goal.

Here again, Mr. Chairman, the AIPLA will be most happy to work with the subcommittee staff and the staff of the Patent and Trademark Office in order to make our patent and trademark operation the most outstanding in the world.

In the area of protecting U.S. intellectual property rights abroad, it is one we are all interested in and one which has complete bipartisan support. Indeed, intellectual property protection is now a trade issue and is on the agenda for the GATT negotiations now in progress. We will continue to follow this item very closely and, again, work closely with your staff.

On the enforcement of patent rights, we believe that the creation of a Court of Appeals for the Federal Circuit was a beneficial and very positive step for the U.S. patent system. We are very concerned, however, about the fact that there are three vacancies on the court, with two of these dating from January 1986. This matter needs prompt attention.

We also feel, Mr. Chairman, that because of the jurisdiction of the court, attention should be given to filling a portion of the vacancies as they occur with qualified candidates who have patent background and experience.

Mr. Chairman, this completes my oral statement. I would again like to say that the AIPLA will be available to work with your staff in any way that you request.

Thank you very much.

[Submissions of Mr. Kline follow:]

STATEMENT OF
ROBERT C. KLINE, PRESIDENT
AMERICAN
INTELLECTUAL PROPERTY LAW
ASSOCIATION

The American Intellectual Property Law Association (AIPLA) is a national society of more than 5,300 lawyers engaged in the practice of patent, trademark, copyright, licensing, and related fields of law affecting intellectual property rights. AIPLA membership includes lawyers in private, corporate, and government practice; lawyers associated with universities, small business, and large business; and lawyers active in both the domestic and international transfer of technology.

We commend you, Mr. Chairman, for undertaking this hearing so promptly after the formation of the Subcommittee. The first U.S. patent law was passed by the 1st Congress. Now, in the 100th Congress, we believe that improving the vitality of our patent system is and should be an important issue for all of us. This hearing directly relates to American industrial productivity and innovation.

There are facts and impressive statistics known to the Members of this Subcommittee which demonstrate that U.S. technical superiority in the world is now threatened. We in AIPLA know from first-hand experience that competition in world markets in high technology products and goods produced by advanced technological methods and processes is growing stiffer for American business each year. This declining ability to compete is clearly having a serious impact on American exports and is contributing to America's massive trade deficit.

The AIPLA is dedicated to using our collective experience and expertise to improve the effectiveness and efficiency of the U.S. patent system. The reality of global economics has made it clear that we must be equally committed to securing meaningful legal protection for U.S. inventions in foreign countries.

The worth of the U.S. patent system can be approached by asking three questions. Are the patent laws responsive to the needs of inventors and patent owners? Does the Patent and Trademark Office efficiently execute its responsibilities under the patent law? Can patent rights be fairly, promptly, effectively, and economically enforced? Our answer to these questions is yes but more can be done. Our patent system is sound but must be improved.

The Paris Convention which governs the patent laws of more than 100 countries is premised on equal national treatment. That means that U.S. inventors cannot be treated differently under the domestic patent law of any country than a national of that country. While we have "equal access" to foreign patent systems, we must ask the same questions regarding the law, the operation of the patent granting authority and enforcement of rights as we do of our own system. Our concern with the viability of foreign patent systems is prompted by the need for American industry to effectively compete in world markets. Foreign inventors can take advantage of our patent system to compete in the U.S. market. We need the same level of protection to effectively compete in foreign markets.

We are pleased to offer the following general comments on the U.S. patent system as to needed changes in The Law, the Operation of the Patent and Trademark Office, and Enforcement of Patent Rights. Also, we will offer our perception of the current initiatives and activities affecting The Protection of U.S. Intellectual Property Rights Abroad.

AIPLA has an active interest in trademark and copyright law, and how those laws are administered and enforced. However, at this hearing, we will confine our statement to issues involving patent rights, with the single exception of the protection of industrial designs.

THE LAW

During the past four Congresses, numerous amendments to the

patent law have been considered. Many changes have been enacted. The following four amendments have been actively considered in the 98th and 99th Congresses. Each has the support of the Administration as well as widespread support from the private sector.

Process Patent Rights

Under current law, the owner of a U.S. patent on a process may sue any person for infringement who uses that process without authorization in the U.S. However, if the process is used in a foreign country and the product made by the process is imported into the U.S., the patent owner has no remedy under the patent statute. The patent owner does have the limited remedy to petition the International Trade Commission and seek to prevent the product of the process from entering the U.S.

This harmful loophole in the law allows foreign importers of such products to unfairly compete with U.S. process patent owners in the U.S. market place.

We know of no opposition to the principle that U.S. process patent owners should be given this protection, which the great majority of industrial foreign countries provide for their process patent owners. However, the bills to accomplish the principle considered in the past two Congresses have been controversial. The controversy has been centered on how the new law should treat infringers.

We believe infringement of process patents should be treated in basically the same way as infringement of product patents are treated under current law. We see no real difference as to infringement liability whether the imported product infringes a product patent or a process patent. Retail drugstores and generic drug companies, which buy imported products, have argued that they need special protection and limited liability in the case of products made by patented processes.

Late in the last Congress, the Senate passed a process patent bill that went so far as to provide infringers with the

right to continue to infringe for periods of time with either no liability or with liability only for reasonable royalties to the patent owner. This form of ultimate denial of basic patent rights is called a "compulsory license." AIPLA strongly believes that compulsory licensing of patents has no place in U.S. patent law. Attached as an appendix to this statement is our letter dated September 9, 1986 to the former Chairman of this Subcommittee, Senator Mathias, elaborating on this view.

Patent Term Restoration

During the 98th Congress, a law (now 35 U.S.C. 156) was enacted to extend the term of patents on human drug products to compensate the patentee for the time during which the patented product could not be sold or used because of required regulatory review and approval by the Food and Drug Administration. Bills to provide this same relief to owners of patents on certain agricultural and chemical products, subject to regulatory review by the Environmental Protection Agency, and animal drugs, subject to regulatory review by the FDA, were considered but not passed during the 98th and 99th Congresses.

The principle of fairness which underlies current law for human drug product patents is equally applicable to these other categories of regulated products. Legislation to provide relief to owners of patents covering agricultural chemicals and animal drugs should be passed.

Licensee Challenges to Patent Validity

The Supreme Court in Lear Inc. v. Adkins 395 U.S. 653 (1969) held that a person licensed to use a patent may challenge the validity of that patent in court. The Court expressly overruled the holding in Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc., 339 U.S. 827 (1950) that licensee estoppel was the "general rule."

Under the Lear doctrine, the contract rights of the licensor are largely illusory. A licensee is free to negotiate a contract

to pay royalties to a patent owner and then at any time renege on the contract by either failing to pay the royalties or by bringing a declaratory judgment action on the ground that the patent is invalid. The licensor must then either bring a breach of contract action against the licensor or defend the patent in the declaratory judgment action. Courts have adopted various theories on whether the licensee is required to continue to pay royalties during the course of litigation. In any case, currently the licensee risks virtually nothing. If the patent is valid, courts are very likely to find that the agreed upon royalties are the best measure of the worth of the patent. Therefore, after prevailing in the lawsuit the licensor will receive the royalties owed under the contract. Also, because the licensor remains bound to the contract, the licensee can continue to practice the invention after the patent is found valid.

The unfairness of the current state of the law is especially relevant when the licensor is an individual inventor and the licensee is a large corporation. This is often the case and was in *Lear*. If a patent owner does not have the resources to utilize his invention, he must license it to another who possesses those resources. That licensee is able to bear the cost of litigation where the licensor is often hardpressed to do so.

The fact that the licensee has so little to lose encourages a disregard for contract obligations and encourages litigation. Neither result is desirable. A bill to bring the equities between patent licensors and licensees back into balance was considered and passed by the Senate Judiciary Committee in the 98th Congress.

Protection of Industrial Designs of Useful Articles

Designs created and applied to industrial products such as automobiles, lamps, computer terminals, or wrist watches are an important commercial asset. They often are a meaningful factor in the commercial success of a product. Many foreign countries have specifically fashioned laws to protect the owners and

creators of designs. For many years, the U.S. Congress has considered establishing such a law here. On four separate occasions in the past, most recently 1975, the Senate has passed such a bill. In each instance, the House failed to act. In the face of increasing design copying in cheap imported products, American business has inadequate protection for industrial designs.

Protection of designs is available under Chapter 16 of the patent statute. However, it is generally recognized that design patents provide relatively ineffective protection. Courts have difficulty applying the required obviousness standard. Protection can be easily evaded by making minor changes over the patented designs. A PTO study in 1981 showed that over 70% of adjudicated design patents have been held invalid in recent years.

Industrial designs can be protected under the Copyright Act. However, the 1976 revision of that law has made the standard for protection so limited that few designs are eligible to be registered. Several designs registered under the 1976 Act have been the subject of litigation. The cases have resulted in uncertainty on just how narrow the standard for protection actually is. Without a full recitation here of the specifics of the law and the court interpretation of it, it is generally agreed that copyright protection for the full range of industrial designs is not effective.

Bills to provide industrial design protection were pending in the House in the past four Congresses. The same bill was introduced in this Congress in the House by Mr. Moorhead (H.R. 379). Under these bills original designs which make up the appearance of useful articles may be protected for 10 years. Protection is secured by registering the design with the Copyright Office. Because this act must stand alone in the law a full system as to establishment of rights, enforcement, and administration are all provided for in the bill. The system is

very closely akin to the Semi-Conductor Protection Act of 1984 developed by this Subcommittee in the 98th Congress.

OPERATION OF THE PATENT AND TRADEMARK OFFICE

PTO performance is important to a sound patent system and therefore to U.S. innovation and economic competitiveness. PTO operations can be improved, and we believe Commissioner Quigg would agree. The members of AIPLA are users of PTO services, and as such, have considerable direct experience with how the PTO performs. We believe that AIPLA has an affirmative responsibility to identify problems and short comings, and work with the Office and the Congress to find solutions. The fact that we focus on PTO difficulties should not be interpreted to mean we believe the Office is failing its responsibilities. PTO overall performance is good but improvements can and should be made.

The PTO has two overriding publicly stated goals for the patent operations. The first is to issue patents on average in 18 months from filing by fiscal year 1989. We agree that reasonably prompt prosecution of patent applications is desirable and that 18 months pendency is very prompt. However, AIPLA believes that the quality of patent examination is considerably more important than the production rate. Issuing valid patents is the mission of the Office.

The second goal is to "automate" the patent operation by 1990. The plan has two parts. The first part is digitizing the massive search file so that it can be accessed on computer terminals. The second is devising a system to digitize applications and subsequent prosecution documents so that all examination records in a given case can be accessed on computer terminals. This would allow patent applications to be filed electronically or in machine readable form. When the two parts are accomplished, the result is a "paperless" PTO. We fully support the automation project. However, we believe this difficult and expensive task must be done deliberately and carefully to make

absolutely certain the system will fully meet the needs of the examiners and public alike. Whether all or part of the system is in place by 1990 is of minor importance.

Quality of Patent Examination

The Office has undertaken a program to improve the quality of patent examination. We strongly support the effort and are cooperating to the fullest extent possible. The program is nearing the completion of the information gathering stage.

Last September, all AIPLA members were sent a questionnaire entitled "Survey of Attorneys Perception of Patent and Trademark Office Quality." More than 1,100 AIPLA members responded. This represents more the 10% of all attorneys registered to practice.

The survey contained 38 questions on specific patent examiner performance situations, 1 question as to the appearance and grammar of examiner communications, 1 multi part question on examiner traits, and 1 multi part question on the examiner's clerical staff. A copy of the survey and a compilation of the results of the submitted questionnaire is attached.

The PTO has conducted an internal survey of patent examiners perception of attorney performance as well as several other surveys. The important task ahead is to determine exactly what this information teaches and what steps are necessary to improve the patent examining process. We have high hopes for ultimate the success of this project and will keep the Subcommittee informed as it progresses.

PTO Automation

The program began with a provision in Public-Law 96-517 directing the Office to prepare a study on the possibility of applying advanced data retrieval technology to all operations and report to Congress in two years. In 1982 the Report was made. Shortly, thereafter the program began.

This is a large scale, complicated, and expensive undertaking. However, it is absolutely essential to the future of the

PTO. The intended public benefits of patent and trademark laws cannot be realized if the search files are not usable in an efficient manner. The paper files of the Office are reaching that point.

The manner in which the automation program has been conducted by the PTO has generated controversy. The General Accounting Office issued a report in 1985 critical of the management of trademark automation and a report in 1986 critical of the patent automation program. Also, AIPLA strongly disagrees with the PTO position that automation expenses should be paid for by user fees, and that fees should be charged for the use of an automated search system in the public patent search room and the public trademark search room.

An active debate on these and other controversies surrounding the program was carried on in the last Congress in the course of consideration of the PTO authorization bill. The authorization bill for FY 1987 and 1988 finally enacted contains a number of provisions affecting the conduct of the program and the ability of the Office to assess and spend user fee income. This is an ongoing and complicated issue and we are available to consult with you on it in detail in the future.

There are two other developments of current interest. A simulation of the automated patent system (APS) will be tested in one examining group, Group 220, beginning in the near future. AIPLA has formed a special Subcommittee of our Information Retrieval Committee to work with the Office on this "Group 220 Test." The purpose of the test is to gather information necessary to decide whether the APS needs to be modified from current plans before deployment throughout the Office. It is also possible that the test will reveal some inherent flaw which would prevent deployment at all.

The second development is that contracts between the Office and certain private entities which restricted public access to the automated trademark search system are being renegotiated.

When that occurs, we believe two things should happen. First, the automated system now in use by trademark examiners to search words in applications for registration should be evaluated by representatives of the bar who regularly use the trademark search room. The private sector has more comprehensive needs from the system than do the examiners. Secondly, immediately following a test that proves the system is reliable, terminals should be put in the public trademark search room so that the public can benefit from this system.

Loss of Patent Rights for Reasons Not Relating to the Invention

The law requires that an invention must be useful, novel, and nonobvious over prior art to be patentable. Applying those legal tests to applications for patents is the responsibility of the examiner. The fundamental purpose of the law is to have meritorious inventions patented and disclosed to the public. There are valid statutory reasons why meritorious inventions may not be patented. The applicant is not the inventor. The invention is sold to the public more than one year before the application for a patent is filed. The applicant fails to pay required fees. However, we believe that any circumstance or reason which prevents meritorious inventions from being patented should be of a compelling nature.

The following three circumstances fall into this category. All involve the interpretation of the law or regulations by the courts.

1. Foreign Filing Licenses. Chapter 17 of Title 35 is designed to prevent the transmittal of information in patent applications to foreign countries which may be "detrimental to the national security." Approximately 7% of applications filed each year by U.S. inventors are in classes which require scrutiny by the PTO and other government agencies to determine whether secrecy orders should issue and foreign transmittal be prohibited. The other 93% receive an automatic license shortly after

filing. The great majority of the 7½ which are screened ultimately also receive a foreign filing license.

Armed with the license, the applicant is authorized to file abroad. The license authorizes filing the application including "modification, amendments, or supplements thereto, or divisions thereof" (35USC184). Section 184 also provides that a retroactive license may be granted to an applicant who has filed abroad without a license if the applicant acted "inadvertently."

We believe that the real intent of Section 184 is to authorize the Commissioner to grant retroactive licenses to allow for equity when an applicant has made an unintentional error. The reason that equity is required is that the penalty for filing abroad without a license is that the corresponding U.S. application shall not issue, or if the patent is obtained it shall be invalid.

The need for a more flexible standard for granting retroactive licenses was made clearly evident by the case of In Re Gaertner, 604 F. 2nd 1348 (1979). The attorney for the applicant in a complicated situation decided that a foreign filing license was not required based on his interpretation of the facts in the case and judicial interpretations of the Section 184 definition of "application." The Commissioner's position was that he did not have the right to grant a retroactive license because the decision by the attorney which was ultimately found to be incorrect was not "inadvertent," but was consciously made. The Commissioner's decision was affirmed by the court. Accordingly, the applicant was denied a patent under the provisions of Section 185.

In the case of In Re Gaertner, the patent application had nothing to do with national security nor did the material filed abroad which the attorney believed he was authorized to file. We recommend that the "inadvertently" standard in Section 184, Paragraph (1), be changed to allow relief when the applicant acted "through error and without deceptive intent." We emphasize

that the more flexible standard only applies to errors in cases which do not affect national security.

Section 184 should also be amended to provide that filing licenses are not required to file "the illustration, exemplification, comparison, or explanation of subject matter specifically or generally disclosed" in an application already authorized to be filed abroad. This amendment will eliminate the need to obtain a foreign filing license on information which adds nothing substantive to subject matter of the patent application which has no national security implications and which has already been licensed for foreign filing. The PTO has already promulgated regulations which authorize the Commissioner to grant a general license which eliminates the need for an additional specific license in this type of situation. However, we believe this change in Section 184 is highly desirable in view of the fact that criminal liability and a declaration of patent invalidity potentially arises for failure to comply.

The AIPLA supported a bill to make these amendments which passed the House in the 98th Congress. The Senate did not act then, primarily because this particular section of the law was at issue in a major case awaiting trial. Now that the trial of the case has been completed, these amendments should be considered.

2. Duty of Disclosure. The PTO promulgated a rule (37 CFR 1.56) in the early 1970's which places an affirmative duty on applicants to "disclose to the Office information they are aware of which is material to the examination of the application. Such information is material where there is a substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent." The rule goes on to provide that if the duty is not met the application will be rejected or the patent declared unenforceable.

The vague and broad wording of the rule has resulted in a considerable body of judicial interpretation. While the case law

provides guidance, the duty imposed by the rule is difficult to meet in a variety of circumstances by even the most cautious, circumspect, and careful attorney.

AIPLA has recently formed a special committee to thoroughly review the operation and effect of this rule. The Committee has not completed its work, nor has it fully determined whether the Rule, the patent statute or both should or should not be amended. However, we believe that a brief discussion of the decision by the Court of Appeals for the Federal Circuit in A.B. Dick v. Burroughs Corp. (CAFC 1986) will illustrate one important facet of this current problem.

An employee of A.B. Dick made an invention. He consulted with an attorney in the course of preparing a patent application on it. The inventor gave the attorney several articles from a scientific journal relevant, in his opinion, to the invention. The application was filed. The attorney did not disclose the articles to the patent examiner. The application reached the point of allowance. Thereafter, the examiner found the articles and concluded those articles affected some claims of the application. Some claims were then rejected and some amended. The patent issued. The patent was litigated earlier and found to be valid. In this case Burroughs alleged that the failure of the attorney to cite the articles from the scientific journal was a violation of Rule 56. The district court rejected that allegation and found the patent valid. The CAFC reversed on the ground that the failure of the attorney did constitute a violation of Rule 56. The patent was held to be unenforceable.

Why the attorney withheld the articles from the examiner was never established. What is clear is that the examiner considered those articles and then allowed the patent to issue. It is also clear the patent was valid. The inventor and the patent owner A.B. Dick were blameless, yet they lost patent protection on a valuable invention. The conduct of the attorney, whether it resulted from honest error, negligence, or common law fraud,

should be and is subject to the PTO Code of Professional Responsibility. However, we feel that it is not be in the public interest to strike down the patent and penalize the patent owner for the conduct of the attorney.

3. Administrative Error. The recent CAFC case of In Re Dubost and subsequent action by the PTO illustrate a problem that clearly needs to be remedied. The inventor filed a patent application in a foreign country. He then proceeded to file an application on the same invention in the U.S. According to our law, he must file within one year of the date he first filed abroad in order to be entitled to obtain the benefit of his foreign filing date. Late in the one year period but before it expired, the attorney for Dubost filed the application with the PTO. Everything was in order, except that the attorney's office manager submitted a check for the filing fee which was not signed. The mistake was noted by the Office and the attorney was notified. By the time a signed check was delivered the year had run and the Office refused to grant Dubost the benefit of his convention filing date. Dubost petitioned the Commissioner to forgive the error and grant him that filing date. The PTO refused for the reason that the Commissioner did not have the discretionary power to grant the petition. Dubost appealed to the CAFC which decided the Commissioner did have the power. The case was remanded and the PTO again refused to grant the petition. The final PTO decision said

...there is seemingly little reason in this case for exercising discretion in favor of petitioner... The PTO can appropriately find the petitioner's dilemma is of his own making.

The PTO ruled against Dubost because of a harmless administrative error for which he was blameless. Furthermore, the PTO has announced a position that harmless and correctable errors are justification for preventing inventors from using the patent law for its intended purpose. We are now considering an appropriate

legislative solution to this problem which we will forward to the Subcommittee for its consideration.

The "Gramm-Rudman-Hollings" Act

The AIPLA has no objection whatever to the purpose of this new law which is to reduce Federal expenditures. However, we believe the law contains a flaw that has caused unintended prejudice to the Patent and Trademark Office and the Copyright Office.

The law provides that in certain circumstances a percentage reduction is made to the "program" cost of all agencies. This presents no problem if the amount of an agency appropriation is the same as the amount the agency spends. However, many agencies collect fees from public users. For example, the PTO collects more than \$100 million each year in fees. The amount appropriated to the PTO "program" is the difference between the actual total expenditures and user fee income. The unfairness is that the reduction percentage in the case of the PTO and Copyright Office, was applied in fiscal year 1986 to the entire "program" or total expenditure amount without regard to the fact that a large part of that does not constitute the Federal expenditure of moneys.

The law is designed to take into account agencies funded by both appropriations and public fee income. It provides for them that the appropriated amounts will serve as the basis for the percentage reductions. However, the specified listing in the law of agencies eligible for this treatment does not include the PTO and Copyright Office.

This issue was brought to the Senate floor last year by Senator Mathias for debate, although the law was not amended. We believe the PTO and Copyright Office should be treated the same as other agencies with similar funding circumstances. We urge the Subcommittee to seek to amend the law for this purpose.

PROTECTION OF U.S. INTELLECTUAL PROPERTY RIGHTS ABROAD

U.S. laws to protect intellectual property are territorial in scope. A patent issued by the PTO provides protection only in the United States and its' territories and possessions. The same scope applies to trademarks, copyrights, trade secrets, and semiconductor mask works. Until the very recent past, United States direct action to improve foreign intellectual property systems consisted primarily in participation in multi-national treaties.

The treaty establishing principles of patent law is the Paris Convention for the Protection of Industrial Property of 1883. The Paris Convention has been revised in 1900, 1911, 1925, 1934, 1958 and 1967. A further revision has been actively debated for the past six years. The Paris Convention is administered by the World Intellectual Property Organization (WIPO) a U.N. related agency headquartered in Geneva, Switzerland.

There are several difficulties in Paris Convention negotiations and amendment. Any revision requires near unanimous approval by the signatories, which include more than 100 countries. Achieving unanimity in this context is difficult because patent laws have very diverse implications in industrialized countries, communist-bloc countries, and developing countries. Furthermore, the Paris Convention has no enforcement mechanism. No penalty attaches to a signatory for not abiding by the terms of the Treaty, save expulsion from the Paris Union.

The Reagan Administration with the bi-partisan support of Congress has begun to approach intellectual property protection as a trade issue. The 98th Congress amended the Trade Act in several parts to provide that foreign violations of U.S. intellectual property rights may constitute unfair international trade practices. In 1985, the United States Trade Representative (USTR) used the newly amended Trade Act Section 301 to investigate the Republic of Korea for the effect on U.S. business of

their inadequate patent, copyright and trademark laws. The action was highly successful. Korea is moving to strengthen all three bodies of law.

On April 3, 1986, the USTR issued a comprehensive policy statement on the protection of U.S. owned intellectual property in foreign countries. A keystone of the policy was to place intellectual property protection on the agenda for the Uruguay Round of GATT negotiations. This was agreed to in September 1986 and negotiations are underway. The goal is to establish in GATT minimum standards for the protection of patents, trademarks, copyrights, trade secrets, and semiconductor layout designs. If such standards are adopted, a major benefit envisioned is use of GATT enforcement mechanisms to secure compliance.

WIPO has pledged to contribute to the GATT negotiations. For example, WIPO convened a Committee of Experts on Harmonization of Patent Laws in 1985. The Committee will meet for the fourth time next month in Geneva. AIPPIA actively participates in this Committee. The purpose of the treaty is to develop an optimum and mutually agreeable common approach to a significant number of patent law provisions and practices. The goal of making all patent laws more uniform is to improve efficiency and reduce the cost of the international patent system. This WIPO activity is complementary to the GATT debate on formulating minimum standards of patent law.

We believe that Congress, and particularly this Subcommittee, should take an active interest in this process now. It is inevitable that these negotiations, whether at WIPO or within the Uruguay Round of GATT, will involve negotiating pressures that U.S. intellectual property laws be changed. In the relatively near term, direct Congressional involvement will be absolutely essential to this process.

Article (64)(4) Reservation to the Patent Cooperation Treaty

Our patent law provides that patents may be granted for

inventions which are useful, novel, and nonobvious over prior art. A very important factor is what is considered part of the "prior art." Generally, prior art consists of everything available to the public before a certain date. However, in many modern patent laws, including our own, the prior art includes the contents of patent applications which are not public information.

Section 102(e) of Title 35 provides that a patent cannot be granted for an invention described in another patent granted on an application filed by another in the U.S. before the date of that invention. In other words, information in a patent application becomes prior on the date the application is filed in the U.S.

The date of invention in the U.S. is established by reference to knowledge or use or other activity in the U.S. This date can be much earlier than the filing date of the application for the grant of a patent for that invention. On the other hand, as regards inventions made abroad, the date of invention cannot be established by reference to knowledge or use or activity in a foreign country (Section 104 of Title 35). Therefore, for an application under examination claiming an invention made abroad, the effective date of invention is usually the foreign priority date of the application, a date that is later than the actual date of invention. Also the prior art effect of previously filed but yet unpublished patent applications takes place only as of their filing date in the U.S. and not their priority date. In other words, the effective date of reference for purposes of Section 102(e) is the actual date of filing in the U.S.

Article 64(4) of the Patent Cooperation Treaty provides for a reservation regarding the prior art effect of patents before issuance or publication. The U.S. is the only PCT signatory which has made the reservation. This means that as regards international applications under the PCT, the international filing date is not equated, for prior art effect purposes, to a filing date in the U.S. This in turn means that foreign appli-

cants are worse off by using PCT than if they used the existing, non-PCT route.

We believe that the time has come to withdraw the chapter 64(4) reservation to the PCT. In our opinion this move would encourage use of the PCT by foreign applicants who desire protection in the U.S. The full operation of the PCT tends to cause marginal cases to be dropped out which would reduce the workload of the U.S. Patent Office. When foreign originated PCT cases are filed in the U.S., the U.S. examiner will have the benefit of an international search and examination. Also, increased foreign use of PCT will increase our access to foreign developments in technology because all PCT filings are published with English language abstracts 18 months after filing.

Any change in U.S. Treaty obligations must be initiated by the Executive Branch. Therefore, we would encourage the Subcommittee to solicit the views of the PTO on this matter.

ENFORCEMENT OF PATENT RIGHTS

The 97th Congress created the Court of Appeals for the Federal Circuit (CAFC). The court began operation on October 1, 1982. Appeals in all patent cases decided by U.S. district courts are taken to the CAFC. The purpose of reposing this jurisdiction in one court was to make the enforcement of patent rights more uniform as to the application of the law and more prompt in reaching the end of the judicial process. Lack of uniformity among the circuits and slowness of the judicial process as to patent litigation which is often unusually complex were serious problems. The CAFC has successfully solved both problems.

However, there is a current serious problem at the CAFC we believe deserves your attention. The CAFC is comprised of 12 judges. There have been two vacancies since January 1986. A third vacancy occurred in November 1986. The continued service of senior judges has mitigated this serious loss of manpower.

Early this month, President Reagan nominated Judge H. Robert Mayer of the U.S. Claims Court to fill one of the vacancies. Judge Mayer is a highly regarded jurist whose nomination should be promptly confirmed. The patent system depends on the continued efficiency of the CAFC.

* * * *

This completes our statement. I will be pleased to answer any questions the Members of the Subcommittee may have.

APPENDIXES TO THE STATEMENT OF ROBERT C. KLINE



AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION

SUITE 203 • 2001 JEFFERSON DAVIS HIGHWAY ARLINGTON, VA 22202

Telephone (703) 521-1680

September 9, 1986

Senator Charles McC. Mathias
Chairman, Subcommittee on Patents,
Copyrights and Trademarks
Committee on the Judiciary
United States Senate
Washington, DC 20510

Re: Process Patent
Reform (S. 1543)

Dear Mr. Chairman:

The American Intellectual Property Law Association (AIPLA) is a national bar association of more than 5,100 lawyers engaged in the practice of patent, trademark, copyright and other forms of law which protect intellectual property.

The AIPLA has supported bills to reform U.S. process patent laws throughout the past two Congresses. We supported the bill that passed the Senate Judiciary Committee in the 98th Congress and on October 23, 1985 we testified before the Subcommittee on Patents, Copyrights and Trademarks in support of S. 1543 as introduced early in this Congress. However, we oppose the version of S. 1543 that was circulated on August 8, 1986 as a draft of the Subcommittee. That draft bill contains amendments to the patent law that are contrary to the fundamental and long standing opposition of the United States to any form of compulsory licensing of patents.

A U.S. patent grant only provides the legal right to exclude others from the unauthorized manufacture, sale, or use of the invention. Laws that take away that right, whatever the details of the deprivation, are referred to as compulsory licensing laws. Our present patent system is viable because it justifies the investment of the time and money required to create a patentably new product and bring it to market, by preventing competitors from copying that product and reaping the rewards without incurring the investment. Laws that defeat the full and certain ownership of patents are the antithesis of laws which allow inventions to be patented.

Compulsory licenses would be especially harmful and damaging to patentees which are independent inventors or small business owners. They often do not possess the

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ability to manufacture. They can only benefit from their inventions if the patent can be licensed to a willing manufacturer who can. However, if the patentee cannot grant an exclusive license because the law may allow any number of competitors in the market without risk of liability, the value of the patent and the possibility of finding a manufacturer willing to take a license is greatly reduced.

The amended form of S. 1543 contains a number of justified provisions limiting the liability of unwary potential infringers. However, the present draft bill also authorizes deliberate informed patent infringement in proposed amendments to 35 U.S.C. 287 numbered subsections (b)(3), (4) and (5). In particular, subsection (b)(3) deprives patent owners of their right against infringers who sell to the public, for a period of 18 months. The 18 month period does not even begin until the patentee actually discovers the unauthorized use or sale of the invention and gives the infringer legal notice of infringement. Thus prior to detection, the infringer is also free to act with impunity. During this entire period, the infringer would have no liability whatsoever.

Subsections (b)(4) and (5) constitute forced sale of the patentee's rights for either 6 months or 18 months for a "reasonable royalty." Again, the time periods do not even begin until the patentee detects the infringement and so notifies the infringer. Even then, such payments are only collectable if the patentee can afford the cost of successfully suing the infringer in federal court.

Another immediate negative impact of congressional approval of any form of compulsory patent licensing will be international in nature. The U.S. Government is now undertaking a major effort to strengthen the protection of U.S. owned intellectual property in foreign countries. The effort involves Trade Act amendments enacted in the 98th Congress being executed by the U.S. Trade Representative, negotiations by the Patent and Trademark Office at the World Intellectual Property Organization on a number of matters including negotiations on the Paris Convention for the Protection of Industrial Property, and numerous ongoing bilateral relations administered by the State Department. Compulsory patent licensing is a major point of controversy in current U.S. trade negotiations with Canada. One of the major U.S. initiatives at the GATT meeting of ministers commencing next week, is to strengthen protection for patents in GATT. In all of these forums, the United States has always opposed compulsory patent licensing as a matter of fundamental principle. In fact, the U.S. has always attempted to teach other countries the self defeating results of such laws. (See WIPO document attached).

Steadfast and categorical opposition to compulsory licensing has been articulated from the highest levels of our government. On January 29, 1982 President Reagan addressed "serious questions" about a draft Law of the Sea Treaty then in final negotiations. The draft contained provisions for mandatory compulsory licensing of patents used by U.S. companies in mining the international deep seabed. The President said, "the convention (treaty) should not contain mandatory transfer of private technology." Ambassador James L. Malone, in testimony before a House of Representatives Committee the next week, amplified on the President's remarks by saying:

"There is a deeply held view in our Congress that one of America's greatest assets is its capacity for innovation and invention and its ability to produce advanced technology. It is understandable, therefore, that a treaty would be unacceptable to many Americans if it required the United States or, more particularly, private companies to transfer that asset in a forced sale. That is why the problem must be solved."

The U.S. did not become a signatory to Law of the Sea Treaty when these and other unrelated provisions were not amended.

The AIPLA supports needed improvements in process patent protection. However, in our opinion, the benefits to the U.S. patent system resulting from improving process patent protection would be far outweighed by the harm caused by undermining the fundamental principal of our patent law prohibiting such involuntary taking of U.S. patent rights. In our view, approval of S. 1543 in the draft form, even by one Committee of the Congress, would be a serious mistake.

Sincerely,

Thomas F. Smegal, Jr.
Thomas F. Smegal, Jr.
President

AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION

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MEMORANDUM

TO ALL AIPLA MEMBERS

From: Michael W. Blommer *MB*

Re: Survey of Attorneys Perception of Patent and Trademark Office Quality

Commissioner Quigg has undertaken a new effort to improve the quality of the patent examining process. Every AIPLA member can agree with the goal. Part of the Commissioner's new effort is to inquire into the degree of competence and professionalism the examiners are demonstrating in the course of their substantive work. This bears directly on validity of issued patents, and sub-issues such as the effectiveness of existing procedures and applicant processing costs. This component of quality is difficult to define and measure. But without definitions and analysis, human system problems can't be solved.

The questionnaire, which forms part of this memorandum, is a very important part of a larger program. It was developed jointly by a PTO team headed by Assistant Commissioner Tegtmeyer and an AIPLA ad hoc committee chaired by Maurice Klitzman. The purpose is to evaluate examiners' performance from the practitioners' viewpoint. An important caveat is to base your answers on experiences with examiners over the past year. Today's problems are the issue. Also note that space is provided adjacent numeral 42 on the questionnaire for your comments regarding something that you think should be called to the Commissioner's attention.

A final point. Please take the time to fill out the questionnaire and return it to AIPLA headquarters. The Commissioner is trying to do something we all support; something that's very important to the Office and to us. He needs our cooperation and deserves to receive it.

CIRCLE THE APPROPRIATE ANSWER USING THE FOLLOWING SCALE

(A) Almost Always (B) Most of the Time (C) Occasionally (D) Rarely

Examiner's Art Rejections

- A B C D 1. Do the Office actions indicate that the examiners understand the invention as claimed?
- A B C D 2. When claims are rejected over prior art references, are the references relevant to the invention as claimed?
- A B C D 3. Are the references applied under the proper section of the statute (35 USC 102 or 103)?
- A B C D 4. When claims are rejected on a single reference or on a combination of references, are pertinent parts of the references being relied upon adequately identified?
- A B C D 5. Do examiners adequately explain how the references are being combined?
- A B C D 6. Do examiners explain why (motivation or suggestion) the combination would have been obvious?

Rejections Under 35 USC 112

- A B C D 7. When claims are rejected as being based upon a non-enabling disclosure under 35 USC 112, first paragraph, do examiners give reasons why the specification is non-enabling?
- A B C D 8. When claims are rejected following an amendment as containing a limitation not described in the original disclosure (new matter) under 35 USC 112, first paragraph, do examiners clearly point out the limitation?
- A B C D 9. When claims are rejected following an amendment as containing a limitation not described in the original disclosure (new matter) under 35 USC 112, first paragraph, do examiners explain why the original disclosure does not support the limitation?
- A B C D 10. When claims are rejected as failing to particularly point out and distinctly claim the invention under 35 USC 112, second paragraph, do examiners clearly explain the deficiency of the claims?
- A B C D 11. When examiners reject claims under 35 USC 112, first or second paragraph, is the rejection valid in a legal sense?

Final Rejections and After Final Rejection Practice

- A B C D 12. Do examiners respond to all significant arguments raised by applicant when making an action final?
- A B C D 13. When examiners hold an affidavit to be insufficient, do examiners give adequate reasons for their holding?
- A B C D 14. Are second or subsequent action final rejections proper (i.e., issues have been adequately developed and no new ground of rejection has been introduced unless necessitated by applicant's amendment to the claims)?
- A B C D 15. Are responses after final rejection given full consideration by examiners within limits of PTO after final practice?
- A B C D 16. When entry of amendments after final rejection are denied, under Rule 116(b), do examiners clearly indicate the reasons for the non-entry?

Compact Prosecution

- A B C D 17. Are first actions on the merits complete to the extent that all appropriate issues are raised?
- A B C D 18. When examiners apply newly cited art in second or subsequent actions, is the new art necessitated by an amendment to the claims?
- A B C D 19. When a first action is made final in an continuing application, is the action made final because the claims are drawn to same invention as claimed in the earlier application and the claims would have been properly finally rejected in the earlier application?
- A B C D 20. Are all issues fully developed by the time a final action is given?
- A B C D 21. Do examiners make adequate use of telephonic communications to advance prosecution?
- A B C D 22. Do examiners indicate the presence of allowable subject matter where appropriate?

Interview Practice

- A B C D 23. Do you find examiners willing to have at least one interview when timely requested?
- A B C D 24. When interviews are scheduled with examiners, are they adequately prepared?
- A B C D 25. Do examiners conduct their interviews in a professional manner?
- A B C D 26. Are examiners willing to discuss and attempt to resolve, subject to further review and confirmation, substantive issues one way or another at the interview?
- A B C D 27. Do you find interviews to be productive in clarifying and/or resolving issues?
- A B C D 28. When examiners complete an interview summary form, is significant information omitted?
- A B C D 29. Do examiners keep pre-scheduled interviews?

Reasons for Allowance

- A B C D 30. When examiners make of record their reasons for allowance, do they clearly establish why the claims were allowed?
- A B C D 31. When examiners make of record their reasons for allowance, do they add unnecessary statements unrelated to reasons for allowance?
- A B C D 32. Do examiners give reasons for allowance when the record does not otherwise indicate why the claims were allowed?

Examiner's Answers

- A B C D 33. Are examiner's answers complete in responding to all issues raised by applicant?
- A B C D 34. Do examiners' answers improperly include new grounds of rejection not arguably necessitated by applicant's amendments, briefs and/or affidavits?
- A B C D 35. Do examiners adequately explain why the claims read on the references in the examiners' answers?
- A B C D 36. Do examiners explain why (motivation or suggestion) the combination of references would have been obvious in the examiners' answers?
- A B C D 37. Do examiners respond to all significant arguments raised in the appeal brief?

Miscellaneous

- A B C D 38. Are PTO actions neat in general appearance, and reasonably free of grammatical and typographical errors?

CIRCLE THE APPROPRIATE ANSWER USING THE FOLLOWING SCALE

(A) Excellent (B) Good (C) Fair (D) Poor

39. Rate patent examiners in general with respect to each trait:

- A B C D - courteousness
- A B C D - care in doing job
- A B C D - fair and impartial
- A B C D - neat and business-like attire
- A B C D - technical competency
- A B C D - legal proficiency
- A B C D - cooperativeness
- A B C D - procedurally up-to-date
- A B C D - availability in person or by phone

40. Rate the clerical staff in the Examining Groups with respect to each trait:

- A B C D - courteousness
- A B C D - care in doing job
- A B C D - neatness of attire
- A B C D - clerical competency
- A B C D - cooperativeness
- A B C D - procedurally up-to-date
- A B C D - availability in person or by phone

41. Indicate by a check () the technological area of most of your patents.

() Chemical () Electrical () Mechanical () No One Area

42. Comments _____

SURVEY OF ATTORNEYS PERCEPTION OF PATENT AND TRADEMARK OFFICE QUALITY

((A)Almost Always (B)Most of the Time (C)Occasionally (D)Rarely)

Examiner's Art Rejections

	A	B	C	D
1. Do the Office actions indicate that the examiners understand the invention as claimed?	12%	69%	17%	1%
2. When claims are rejected over prior art references, are the references relevant to the invention <u>as claimed</u> ?	10%	68%	20%	1%
3. Are references applied under the proper section of the statute (35 USC 102 or 103)?	41%	52%	6%	1%
4. When claims are rejected on a single reference or on a combination of references, are pertinent parts of the references being relied upon adequately identified?	6%	35%	41%	18%
5. Do examiners adequately explain how the references are being combined?	3%	31%	44%	21%
6. Do examiners explain why (motivation or suggestion) the combination would have been obvious?	1%	10%	34%	54%

Rejections Under 35 USC 112

7. When claims are rejected as being based upon a non-enabling disclosure under 35 USC 112, first paragraph, do examiners give reasons why the specification is non-enabling?	18%	43%	23%	10%
8. When claims are rejected following an amendment as containing a limitation not described in the original disclosure (new matter) under 35 USC 112, first paragraph, do examiners clearly point out the limitation?	26%	45%	14%	3%
9. When claims are rejected following an amendment as containing a limitation not described in the original disclosure (new matter) under 35 USC 112, first paragraph, do examiners explain why the original disclosure does not support the limitation?	12%	34%	28%	13%

	A	B	C	D
10. When claims are rejected as failing to particularly point out and distinctly claim the invention under 35 USC 112, second paragraph, do examiners clearly explain the deficiency of the claims?	13%	42%	30%	12%
11. When examiners reject claims under 35 USC 112, first or second paragraph, is the rejection valid in a legal sense?	4%	30%	42%	19%

Final Rejections and After Final Rejection Practice

12. Do examiners respond to all significant arguments raised by applicant when making an action final?	4%	34%	39%	22%
13. When examiners hold an affidavit to be insufficient, do examiners give adequate reasons for their holding?	6%	34%	30%	15%
14. Are second or subsequent action final rejections proper (i.e., issues have been adequately developed and no new ground of rejection has been introduced unless necessitated by applicant's amendment to the claims)?	9%	51%	31%	7%
15. Are responses after final rejection given full consideration by examiners within limits of PTO after final practice?	8%	41%	34%	13%
16. When entry of amendments after final rejection are denied, under Rule 116(b), do examiners clearly indicate the reasons for the non-entry?	9%	34%	33%	18%

Compact Prosecution

17. Are first actions on the merits complete to the extent that all appropriate issues are raised?	12%	56%	21%	7%
18. When examiners apply newly cited art in second or subsequent actions, is the new art necessitated by an amendment to the claims?	4%	34%	44%	12%
19. When a first action is made final in an continuing application, is the action made final because the claims are drawn to same invention as claimed in the earlier application and the claims would have been properly finally rejected in the earlier application?	14%	39%	18%	6%
20. Are all issues fully developed by the time a final action is given?	6%	42%	37%	11%
21. Do examiners make adequate use of telephonic communications to advance prosecution?	5%	24%	40%	27%
22. Do examiners indicate the presence of allowable subject matter where appropriate?	7%	31%	39%	20%

Interview Practice

23. Do you find examiners willing to have at least one interview when timely requested?	46%	42%	5%	1%
24. When interviews are scheduled with examiners, are they adequately prepared?	18%	50%	20%	4%
25. Do examiners conduct their interviews in a professional manner?	39%	47%	6%	0%
26. Are examiners willing to discuss and attempt to resolve, subject to further review and confirmation, substantive issues one way or another at the interview?	20%	46%	22%	5%
27. Do you find interviews to be productive in clarifying and/or resolving issues?	36%	39%	15%	3%
28. When examiners complete an interview summary form, is significant information omitted?	5%	9%	37%	41%

	A	B	C	D
29. Do examiners keep pre-scheduled interviews?	63%	26%	2%	0%

Reasons for Allowance

30. When examiners make of record their reasons for allowance, do they clearly establish why the claims were allowed?	9%	38%	32%	16%
31. When examiners make of record their reasons for allowance, do they add unnecessary statements unrelated to reasons for allowance?	2%	6%	36%	50%
32. Do examiners give reasons for allowance when the record does not otherwise indicate why the claims were allowed?	3%	15%	43%	30%

Examiner's Answers

33. Are examiner's answers complete in responding to all issues raised by applicant?	10%	43%	33%	10%
34. Do examiners' answers improperly include new grounds of rejection not arguably necessitated by applicant's amendments, briefs and/or affidavits?	1%	8%	55%	31%
35. Do examiners adequately explain why the claims read on the references in the examiners' answers?	4%	41%	37%	13%
36. Do examiners explain why (motivation or suggestion) the combination of references would have been obvious in the examiners' answers?	2%	21%	39%	33%
37. Do examiners respond to all significant arguments raised in the appeal brief?	9%	52%	21%	7%

Miscellaneous

38. Are PTO actions neat in general appearance, and reasonably free of grammatical and typographical errors?	8%	44%	27%	19%
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(A) Excellent (B) Good (C) Fair (D) Poor

39. Rate patent examiners in general with respect to each trait:

A) - courteousness	49%	47%	3%	0%
B) - care in doing job	10%	59%	27%	3%
C) - fair and impartial	16%	55%	24%	2%
D) - neat and business-like attire	9%	44%	30%	6%
E) - technical competency	10%	55%	30%	3%
F) - legal proficiency	4%	34%	46%	14%
G) - cooperativeness	17%	62%	18%	1%
H) - procedurally up-to-date	19%	61%	17%	2%
I) - availability in person or by phone	22%	50%	21%	5%

40. Rate the clerical staff in the Examining Groups with respect to each trait:

A) - courteousness	16%	42%	29%	8%
B) - care in doing job	4%	27%	42%	19%
C) - neatness of attire	6%	41%	28%	9%
D) - clerical competency	2%	25%	43%	20%
E) - cooperativeness	10%	41%	33%	8%
F) - procedurally up-to-date	5%	36%	33%	12%
G) - availability in person or by phone	16%	47%	19%	6%



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March 24, 1987

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ROBERT C. KEENE

President-Elect

HONORABLE DENNIS DECONCINI
Chairman, Subcommittee on Patents,
Copyrights and Trademarks
Committee on the Judiciary
United States Senate
Washington, DC 20510

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THOMAS F. SMIGAL, JR.

Dear Mr. Chairman:

We have your request for further information supplemental to the AIPLA testimony of February 17, 1987. We are pleased to comply.

Trademark Fees

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The trademark operation of the Patent and Trademark Office (PTO) has been fully funded by user fees for at least the past four years. This is the announced policy of the PTO. Trademark related fees are maintained in an account distinct from patent related fees, which makes it possible to determine the yearly level of trademark fee income. However, PTO has never publicly reported the yearly cost of the trademark operation. This "accounting" problem is relevant because we believe an important issue here is whether trademark operation users should be required to pay only for services they request and receive or whether those users should be required to pay for a portion of the patent operation as well.

Councilman to NCTPLA

LEONARD B. MACKLEY

Executive Director

MICHAEL W. BLOMMER

Until Congress and the public knows the cost of the trademark operation, we do not know whether this policy issue needs to be addressed. Public Law 99-607 was enacted in the last Congress. A part of that law requires the PTO to make a full accounting to Congress, and specifically the Judiciary Committees, of trademark fee income collected and how that amount was spent. Presumably, this will resolve the question of whether, in fact, the trademark operation is fully funded by trademark related fees.

Public Law 99-607 also requires that the full cost of

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the public trademark search library be provided by appropriated funds in fiscal years 1987 and 1988. That law further provides that during this period, 70% of total cost of trademark expenditures shall be provided by appropriated funds. The decision of Congress reflected in these two sections of the law is contrary to PTO policy that all costs of the trademark operation be fully provided for by fees. We assume the request for PTO appropriations for fiscal year 1987 reflects the legal requirements of Public Law 99-607.

Let me conclude by expanding upon a point contained in the AIPLA statement of February 17, 1987. The total automation program in the PTO has been paid for by the public. In the case of trademark automation, the cost has been paid by both the general public in the form of appropriated funds and trademark users in the form of user fees. The public trademark search library is required because of the public notice function of the trademark register. The high cost of automating that search library can only be justified if that system makes the Lanham Act operate more efficiently and effectively for the benefit of trademark owners and the public which depends on the trademarks. Indeed, the Lanham Act itself was enacted by Congress for this reason.

Currently, trademark examiners use the automated system to search for word marks. They use the system because it is an improvement, in a number of ways, of their ability to search the trademark register. We strongly urge the Subcommittee to inquire of the PTO when search terminals will be placed in the trademark search library. The trademark owners should also be given the benefits of the new system.

We stand ready to provide you with any further information you request.

Sincerely,

Robert C. Kline

Robert C. Kline
President

Senator DECONCINI. Thank you very much. We do appreciate that offer of help. I will get back to you with a question here in a moment.

Mr. Lee, thank you for being with us today. You may proceed.

STATEMENT OF WILLIAM MARSHALL LEE

Mr. LEE. Thank you very much, Mr. Chairman. I thank you and the other members of the subcommittee for the opportunity to testify in behalf of the American Bar Association and the Section of Patent, Trademark and Copyright Law of the American Bar Association, of which I am the current chairman.

First, before getting into our positions, Mr. Chairman, I would like to state that I think that the patent system in the United States is healthy. I do not want the chairman or the subcommittee to get the impression that is in serious, serious trouble. It needs adjustment, yes, but it is good and I think that the establishment of the Federal appeals court, that is the U.S. Court of Appeals for the Federal Circuit, is to a large extent responsible for the resurgence of patents in the United States.

Yesterday, Mr. Chairman, I attended—yesterday and a few days before—the meeting of the American Bar Association. I think, as the chairman knows, the American Bar Association is the largest professional association in the world, with 325,000-plus members. Yesterday, the House of Delegates of the American Bar Association met, the 400-plus members of the House of Delegates, and considered additional resolutions which were proposed by the section for improvement of intellectual property law. Although I understand that this hearing does not specifically relate to copyright matters, I do want to point out to the chairman that the American Bar Association House of Delegates yesterday adopted a resolution asking that legislation be implemented in order to permit implementation of the Berne Convention for the Protection of Literary and Artistic Works.

I would like to go on, Mr. Chairman, to patent matters. My feeling, and I believe the feeling of the American Bar Association and the Section, is that given an even keel, U.S. industry can compete effectively worldwide. The difficulty we are faced with in the United States, and industry in the United States is faced with, is that our laws and the laws of foreign countries are not equal with respect to protection of intellectual property.

With respect to our laws, the American Bar Association feels that the enactment of industrial design protection is very important. This has been a long-time position of the American Bar Association. Yesterday, at the House of Delegates meeting we were successful in convincing the House to address the question of industrial designs again. A resolution was passed providing that the American Bar Association reaffirms its longstanding support in principle for legislation providing for the protection of ornamental designs of useful articles, and specifically legislation which would provide a limited term copyright-type protection for registered designs which are original and distinctive. We feel that is very important and, as I say, yesterday the American Bar Association reaffirmed that position.

I should mention on industrial designs that the problem we are faced with in the United States is that all other industrialized countries protect designs without imposing the kind of difficulty we have in litigation, that is, to prove that the design is not obvious. That is very difficult to do, is very expensive and is not effective. Other countries do not require this.

Another area where U.S. industry is faced with an inequality with other countries is in the process patent situation that has been mentioned a number of times here. We feel that it is very, very important to provide U.S. industry with protection against imported products which infringe U.S. process patents. The American Bar Association has a pertinent resolution which was passed last year. The section since that time has passed another resolution, mindful of the problem of opposition by the generic drug people, offering a compromise which would in essence provide a grandfather clause for products which are presently being imported or products for which substantial efforts have been made to import. The compromise would set a particular cutoff date, grandfathering the products that were brought in or being brought in prior to that time. The law would take effect and allow time for the generic drug manufacturers to adjust to it, so that they would be in the same boat as all other infringers.

Getting over to another area of intellectual property law, the American Bar Association yesterday passed resolutions—and this relates to foreign protection of intellectual property—it passed a resolution which was proposed by the Patent Section and another resolution proposed by the International Law Section of the American Bar Association, lauding the efforts of the U.S. Trade Representative to obtain equal protection for U.S. manufacturers in foreign countries. I think the chairman knows and the subcommittee realizes that if foreign protection is not provided for products of manufacturers of products which are exported by U.S. manufacturers, copyists can copy at will. Copyists are not saddled with the expenses which were incurred in developing the products.

Going on to another position, the section believes that the International Trade Commission procedures, which are very, very difficult and time consuming, should be amended in order to better prevent importation of infringing goods. The law should be amended in section 1337, in order to provide that it is not necessary to prove that there is injury to an efficiently operating U.S. industry. That takes at least half of the proof and makes it very, very expensive to use these ITC proceedings. It is not necessary to have such a requirement. I think it is an anachronism.

In addition, we feel that there should be a technical improvement in the law relating to foreign application filing. The law requires, in order to file foreign patent applications, a license for filing. This is a trap for the unwary. If a patent application is filed in the United States and a corresponding application is filed in a foreign country sooner than 6 months after the U.S. filing date, it is necessary to obtain a license to authorize the foreign filing. In the very difficult patent prosecution procedures, the necessary license technicalities are sometimes forgotten and patents are unnecessarily invalidated for failure to obtain licenses. We think this should be rectified. That is in our written statement.

We think also that inventions of U.S. nationals which occur on space voyages should be protected by U.S. patents. We have a recommendation on this in the written statement.

We also feel, as do the other people who have spoken here, that the patent term for agricultural chemicals should be reasonably extended where the implementation has been held up because of governmental regulations.

On the trademark side, we feel that trademarks which are titles of individual works, for example, a work such as Martha Mitchell's "Gone With The Wind," should be registerable even though it is a title for a single work. The same principle should be applied to movies and other literary works.

We feel also that intent to use, a provision mentioned by Mr. Cleary, should be enacted. The American Bar Association has a longstanding position on this.

Lastly, we feel that user fees of the Patent and Trademark Office and the Copyright Office should be exempt from Gramm-Rudman-Hollings. We think it is unfair to impose user fees and then make the same cuts in those fees that are made in the appropriated funds.

Mr. Chairman, I thank you very much for the opportunity to be here and I hope to supplement our statement in writing if I can. I am ready to answer any questions.

Thank you.

[Submissions of Mr. Lee follow:]

STATEMENT OF
WILLIAM MARSHALL LEE, CHAIRMAN
SECTION OF PATENT, TRADEMARK AND COPYRIGHT LAW
AMERICAN BAR ASSOCIATION

I am William Marshall Lee, Chairman of the Section of Patent, Trademark and Copyright Law of the American Bar Association. I am appearing at the request of our ABA President, Eugene C. Thomas. This Statement and this portion of my testimony at this oversight hearing are on behalf of the American Bar Association. In addition, I have appended a Supplemental Statement covering positions of the Section of Patent, Trademark and Copyright Law on which the Section has permission to speak but which have not been specifically considered by the ABA House of Delegates.

This year the nation celebrates the Bicentennial of the U.S. Constitution. It seems appropriate at the outset to point out that the patent laws and the copyright laws have been enacted and maintained by the Congress under the express power granted under Article I, Section 8, Clause 8 of the Constitution, which states:

"The Congress shall have the power . . . to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

The trademark laws of the United States likewise have Constitutional foundation under the commerce clause, Article I, Section 8, Clause 3.

Before a more specific discussion of patent and trademark matters I do want to mention one important copyright matter, also within the jurisdiction of the Subcommittee. The Section has recommended that the American Bar Association House of Delegates adopt a position in favor of enactment of legislation to permit adherence by the United States to the Berne Convention for the Protection of Literary and Artistic Works. This International Convention is of particular importance to American authors and copyright proprietors. Hopefully, the Subcommittee will address the question of adherence to the Berne Convention at its early convenience.

PATENT LAWS

The patent laws are contained in Title 35 U.S. Code. The patent system has well served the national interest since enactment of the first patent laws in 1790. As summed up by President Abraham Lincoln over 100 years ago:

"The Patent System added the fuel of interest to the fire of genius."

More recently, President Franklin D. Roosevelt stated that:

"The American Patent System has promoted countless applications of the arts and sciences to the needs and well being of all people."

These well-chosen words of Presidents Lincoln and Roosevelt have continued to be accurate as the nation has progressed through the industrial revolution into the information age. The patent system has continued its encouragement of invention and innovation, and the nation has continued to enjoy their fruits: more jobs, new industries, and a flow of new products. Furthermore, in the country's system of competition an important function of the patent system has been to encourage investment-based risk, without which entrepreneurs and industry could not thrive as they have since our Founding Fathers wisely provided the Constitutional basis for patents.

Nevertheless, the patent laws in the U.S. need constant surveillance in order that they may continue to serve the nation in the future as admirably as they have in the past. This is particularly important in today's world in which the position of the United States as the pre-eminent industrialized nation is being increasingly challenged by other industrialized nations.

To improve the U.S. patent laws so that they may more effectively serve the national interest the American Bar Association urges that the Subcommittee use its best efforts to obtain enactment of proposed legislation which will now be discussed.

Industrial Design Protection

The United States is the only industrialized country in the world which does not provide adequate protection for original and distinctive industrial designs. This lack of industrial design protection makes U.S. manufacturers targets for copyists, both foreign and domestic. In the last few years such copying has come increasingly from foreign countries. Obviously, this means loss of jobs in the United States.

Currently in the United States original and distinctive industrial designs can be protected only by design patent, with very minor exceptions. Under the present statutory law and under decisions of the courts, industrial designs are measured by the same stringent non-obviousness test which is used to measure the validity of utility patents which protect technological advancements. Furthermore, the courts strike down design patents for the slightest hint of functionality. The fact is, original and distinctive industrial designs are essentially unprotectible in the United States.

In the rest of the industrialized world industrial designs are afforded copyright-like protection or are protected by systems of "petty patents". Under design protection systems in foreign countries the only criterion for protection is originality. The higher level non-obviousness test which renders U.S. design patent protection ineffective is not applied in foreign countries.

While bills providing for protection of industrial designs have been long pending in the Congress and have come close to passage more than once, prior to this decade such protection was considered more in the nature of a desirable technical correction in the law. In the 1980's, however, the lack of protection for industrial designs in the United States has assumed increasing commercial significance as products incorporating original and distinctive designs are systematically copied abroad and imported into the U.S. market. Typically, it is the external appearance that is copied and not the underlying quality. Copyists are typically interested in making a quick profit by emulating the appearance of products of original manufacturers, but they are seldom interested in or capable of providing the underlying quality of the genuine products. The competitiveness issue, adverse effect on the balance of payments, inferior products foisted on the American public and lost jobs in the United States have raised the matter of industrial design protection to top priority.

Judge Giles Rich of the U.S. Court of Appeals for the Federal Circuit, who was the moving force behind the 1952 Patent Act, has long deplored the lack of industrial design protection in the United States and has proposed remedial copyright-like legislation since as early as 1957. He stated in his 1981 concurring opinion in In re Nalbandian, 211 USPQ 782, 787:

"It is time to pass it [industrial design legislation] and get the impossible issue of obviousness in design patentability cases off the backs of the courts and the Patent and Trademark Office..."
(emphasis in original)

And in an interview last August Judge Rich placed industrial design legislation at the top of his "fix list" when commenting on the major changes he thought should take place in the intellectual property field. 32 BNA's Patent, Trademark and Copyright Journal 478 (August 22, 1986).

In 1962 the American Bar Association House of Delegates adopted a resolution approving the principle of protection of original and distinctive designs of useful articles. The Section of Patent, Trademark and Copyright Law has repeatedly advocated legislation conforming to this ABA resolution.

Title I of H.R. 379 introduced in the present Congress would provide protection against copying for a period of ten years of "an original design of a useful article, which design is intended to make the article attractive or distinct in appearance." This scope of protection for industrial designs is the same as that provided in H.R. 1900 which was pending in the 99th Congress.

The American Bar Association urges that the need for industrial design protection should be a matter of legislative priority. Enactment of such legislation would bring protection for industrial designs in the United States in line with that which has long existed throughout the rest of the world.

Infringement of Process Patents

Another vexing problem plaguing U.S. industry has been the lack of protection in the United States against importation of products made abroad which if made in the United States would infringe a U.S. process patent. Such protection is part of the patent laws of most of the major industrialized countries of the world. The lack of such protection adversely impacts on jobs in the United States.

For a number of years the Section of Patent, Trademark and Copyright Law has advocated enactment of legislation which would provide protection for U.S. industry against products made abroad which would infringe U.S. process patents if produced in the U.S. About three years ago concern was raised by the U.S. Trade Representative that such legislation could raise problems under Article IV of the General Agreement and Tariffs and Trade (GATT) unless the legislation would protect against infringement by products made domestically . as by products made abroad. Subsequently, in response to this GATT concern, the Section broadened its position to favor legislation which would provide protection against products produced by a process which would infringe a U.S. process patent regardless of whether the products are made domestically or abroad.

Opposition to such proposed legislation was voiced by the generic drug manufacturers on the ground that existing commercial activities would be jeopardized by the legislation in that products protected in this country only by a process patent might be excluded from importation. S. 1543 was introduced in the 99th Congress in an attempt to meet this concern by providing an equitable exemption from infringement for products already imported or for which substantial preparation had been made, analogous to the provisions of 35 U.S.C 252 providing for intervening rights in the case of broadened reissued patents.

In 1986 the American Bar Association House of Delegates adopted a resolution favoring legislation which would establish protection against infringement of a U.S. process patent whether the infringing product is produced domestically or abroad. In pertinent part this ABA resolution is as follows:

"BE IT RESOLVED, That the American Bar Association

A. Supports in principle the enactment of legislation which (a) would establish that whoever without authority uses or sells within, or imports into, the United States during the term of a United States process patent a product produced by such patented process, infringes the process patent, and (b) would create a rebuttable presumption, in actions based on such use, sale or importation, that a product was produced by the patented process, if the court finds (1) that a substantial likelihood exists that the product was produced by the patented process and (2) that the claimant has exhausted all reasonably available means through discovery or otherwise but had been unable to determine, from information provided by the manufacturer of the product, the process actually used in the production of the product; provided, however, that the legislation shall further provide that (i) no damages for infringement shall be recovered based on such use, sale or importation except on proof that the infringer was notified of the infringement occurring after such notice, and (ii) the rebuttable presumption shall not apply if, at the time of commencement of the action, the manufacturer of the product produced by the patented process is either subject to the jurisdiction of a United States District Court in which venue as to such manufacturer can be established under 28 U.S.C. §1400 (b), or consents to such jurisdiction in the District Court in which the action has been brought;"

Subsequently, the Section studied the matter of meeting the concerns of the generic drug manufacturers and now favors a "grandfather" provision which would continue to allow a person to use, sell or import products which on a stated and fixed date were already imported for sale or use in this country, or for which substantial preparation for import for sale or use had been made. It is believed that enactment of process patent legislation in accordance with the 1986 ABA resolution, with a "grandfather" clause, would provide the necessary protection for U.S. manufacturers and at the same time would achieve an equitable balance to meet the concerns of generic drug manufacturers and others.

H.R. 380 has been introduced in the 100th Congress and would provide process patent protection generally in accordance with the 1986 resolution of the American Bar Association. This bill would apply only to products produced or imported after enactment.

The American Bar Association believes that there is an important need for such process patent legislation in order to bring the patent laws of the United States into line with the patent laws of other countries. It is important to recognize that such legislation would assist in protecting jobs in the United States against encroachment from abroad.

TRADEMARK LAWS

The trademark laws are contained in Title 15 U.S. Code and in state and common law. Judge Learned Hand stated the fundamental law principle of the law of trademarks and unfair competition nearly sixty years ago in Yale Electric Corp. v. Robertson, 26 F 2d 972, 973 (2d Cir. 1928):

The law of unfair trade comes down very nearly to this - -as judges have repeated again and again - -that one merchant shall not divert customers from another by representing what he sells as emanating from the second. That has been, and perhaps even more now is, the whole Law and the Prophets on the subject."

The American Bar Association has long favored an important change in trademark law and recommends that the Subcommittee work toward an enactment of legislation to accomplish this change.

Intent to Use

In 1966 the American Bar Association House of Delegates adopted a resolution favoring providing for the filing of trademark applications based upon intention to use. Since that time the Section of Patent, Trademark and Copyright Law has continued to favor in principle legislation to accomplish amendment of the Lanham Act to provide for the filing of trademark applications based upon intent to use.

American corporations sometimes expend months or years and hundreds of thousands of dollars in developing a new product only to discover that another company has begun prior use of their intended trademark. The delays and loss of jobs caused by this problem would be solved by amendment to the Lanham Act to permit intent to use applications which would place other companies on notice of pending marks.

The American Bar Association believes that the need for intent to use legislation should be a legislative priority.

CONCLUSION

This completes my Statement on behalf of the American Bar Association. I am very appreciative of the opportunity to appear before the Subcommittee to present these views, and I thank you on behalf of Mr. Thomas and the ABA.

With respect to the appended Supplemental Statement on behalf of the American Bar Association's Section of Patent, Trademark and Copyright Law, please understand that the Section limits the number of matters which it takes to the ABA House of Delegates primarily because of the crowded House docket. This does not mean that the Section considers the matters in the Supplemental Statement to be of lesser importance.

SUPPLEMENTAL STATEMENT OF
WILLIAM MARSHALL LEE, CHAIRMAN
SECTION OF PATENT, TRADEMARK AND COPYRIGHT LAW
AMERICAN BAR ASSOCIATION

This Supplemental Statement and my further testimony at this oversight hearing are on behalf of the Section of Patent, Trademark and Copyright Law of the American Bar Association covering positions on which the Section has permission to speak but which have not been specifically considered by the ABA House of Delegates.

The Section is a semiautonomous segment of the American Bar Association. Although the Section is relatively small in size compared to its parent association, which has a membership of over 325,000 lawyers, the Section is believed to be the largest national affiliation of intellectual property lawyers in the world, with a membership of over 7,300 lawyers most of whom specialize in patents, trademarks, copyrights, trade secrets and other areas of intellectual property law. The Section is somewhat unique in that its positions are achieved through debate of all members of the Section who are present at its general membership meetings, ordinarily held at each Annual Meeting of the American Bar Association.

**Improvements in Foreign Protection
of Intellectual Property**

The substantial trade deficits suffered by the United States in recent years have focused national attention on the fact that the ability of United States corporations and individuals to sell new products and technology abroad is often frustrated in countries which do not offer adequate protection for such products and technology. As a practical matter, there is often little market for United States products abroad when the fruits of U.S. technology can be infringed, copied or counterfeited, and the violator's lack of investment in research and development and use of cheap labor enable him to sell at substantially lower prices.

For example, chemical products or pharmaceuticals which are developed in the United States at great expense cannot effectively compete in a foreign country whose patent laws do not provide protection for such products since manufacturers in such country, who have not made any real investment in research, development or testing,

can often copy the products at much lower cost. Likewise, there is no market for United States books or motion pictures in a country which refuses copyright protection to works first published outside of that country. So too, well known United States trademarks have little value in a country which affords no effective protection against counterfeiting or whose investment laws hamstring the legitimate licensing and franchising of trademarks.

Section 301 of the Trade Act of 1974, as amended by the Trade and Tariff Act of 1984, gives the President broad powers to investigate and to respond to any policy or practice of a foreign country which is unjustifiable or discriminatory and burdens or restricts United States commerce. 19 U.S.C. §2411. Recently, the Administration, acting through the Office of the United States Trade Representative, has concluded that the denial of adequate and effective protection for intellectual property in certain foreign countries is detrimental to United States trade with those countries and with countries which trade with such countries. Accordingly, the Trade Representative has stepped up efforts to bring about improvement in the levels of protection for intellectual property that can be obtained by United States citizens in foreign countries which have significant trading ties with the United States.

The Office of the U.S. Trade Representative has initiated a policy of instituting formal proceedings under §301 to investigate the adequacy of the intellectual property laws of countries which have significant trading ties with the United States where informal negotiations with such countries have been unproductive. The Trade Representative can recommend retaliatory action because of a foreign government's refusal to improve its levels of protection, and the President may order sanctions, which might include the impositions of fees or tariffs or the elimination of existing benefits to the products of that country under the Generalized System of Preferences.

In January of this year the Assistant U.S. Trade Representative stated that the Administration has determined to be "protectionist" in the area of protection of intellectual property rights, pointing out that when such rights are infringed, U.S. jobs and U.S. exports are lost. It was hinted that the Administration looks forward to introduction of a bill in Congress, like S. 2663 in the 99th Congress, which would authorize trade negotiations on technology transfer with countries that do not permit U.S. firms access to their technology, and which would make it an unreasonable trade practice for a country to condition a U.S. firm's access to its markets upon a transfer

of technology. BNA's Patent, Trademark & Copyright Journal, January 22, 1987, pp. 259-260.

The Section of Patent, Trademark and Copyright Law is of the opinion that such administrative action can be of significant benefit to U.S. industry in selling abroad. While at the present time, neither the American Bar Association nor the Section has an official position with respect to specific legislation, the Section would welcome appropriate legislation to assist in securing adequate and effective levels of protection of intellectual property of U.S. citizens in foreign countries.

Enhancement of Actions in the U.S. International Trade Commission

Section 337 of the Tariff Act of 1930 (19 U.S.C. §1337) provides for actions by U.S. citizens in the International Trade Commission to obtain exclusion of products from abroad which infringe U.S. patents, trademarks or copyrights. However, actions under Section 337 are unnecessarily complicated by reason of the requirement in the law to prove that the importation of the infringing articles substantially injures a U.S. industry which is "efficiently and economically operated".

In August, 1986, the Section of Patent, Trademark and Copyright Law approved a resolution which would amend Section 337 to define as an unfair trade act the unauthorized importation of an article which if made, produced, processed or mined in the United States would infringe a U.S. patent. Thus the Section is now on record as approving an exclusion action in the ITC without the necessity of additionally proving substantial injury to a domestic industry or the necessity of showing that the domestic industry is "efficiently and economically operated". At the same time, the Section went on record as approving expediting the obtaining of preliminary relief under Section 337, and other technical modifications.

Title II of H.R. 379 in the 100th Congress, Title I of which is discussed in my Statement on behalf of the ABA, would amend Section 337 and would accomplish improvements in ITC actions as advocated by the Section.

The January, 1987 statement on behalf of the Administration, mentioned above, indicated that the Administration will again propose legislation to amend Section 337 to eliminate the necessity of proving injury in addition to infringement.

The Section of Patent, Trademark and Copyright Law looks forward to working with the Subcommittee toward enhancement of actions under Section 337 against infringing imports. Such legislation would go far in assisting to improve the competitiveness of U.S. industry and to protect U.S. jobs.

Liberalizing the Law Relating to Licenses
for Filing Foreign Counterparts of U.S. Patents

The present law respecting the filing of patent applications abroad corresponding to U.S. applications contains overly strict technical provisions. Title 35 U.S.C. §184 requires that a license for foreign filing be obtained from the U.S. Patent and Trademark Office if such foreign application is filed sooner than six months subsequent to the date of filing of the corresponding U.S. application. Title 35 U.S. Code §185 provides for invalidation of patents and patent applications in the event foreign applications have been filed without obtaining a license under §184. These overly technical provisions of the patent law are an unnecessary trap for the unwary and have rendered a number of patents invalid or potentially so.

The Section has passed a number of resolutions favoring legislation which would reform the statutory language relating to licenses for filing patent applications in foreign countries. The latest of these is a resolution adopted by the Section in August, 1986 which would revise the strict language of §184 to avoid invalidation of a U.S. patent where a corresponding foreign application was filed abroad without a license "through error and without deceptive intent" as long as the application is not subject to national security restrictions under 35 U.S.C. §181. The proposed legislation would also allow modifications in a properly filed foreign application without requiring a separate license for each such modification.

Detailed proposed statutory language has been drafted which would accomplish modifications of the patent law in order to prevent invalidation of U.S. patents for failure to follow the present unnecessarily technical requirements for the obtaining licenses for foreign filing. The Section recommends enactment of legislation to accomplish such modifications.

Inventions in Space

H.R. 2725 was introduced in the 99th Congress to amend the Patent Act and the National Aeronautics and Space Act of 1958 "to provide that activities which occur in space on a United States controlled vehicle will be treated as if they had occurred within the United States for purposes of domestic patent law." The quoted language is the purpose stated for H.R. 2725.

The Section of Patent, Trademark and Copyright Law is in agreement with the purpose stated in H.R. 2725 of the 99th Congress. The Section believes, however, that the language of the proposed legislation should be modified to make it sufficiently

comprehensive to cover all acts in space under the control of the United States, for example, activities on the Moon, other planets, space shuttles, satellites, space walks, space laboratories, etc. Accordingly, in August, 1986 the Section adopted a resolution to provide that "any activity relating to invention or a patent which occurs in a space journey under the control or jurisdiction of the United States shall be considered as having occurred within the United States" for the purposes of the patent laws.

To insure protection of space generated inventions in activities under the control of the United States the Section recommends enactment of legislation like H.R. 2725 of the 99th Congress, as modified by the language of the Section's August, 1986 resolution.

Patent Term Restoration for Agricultural Chemicals

In 1984 the Congress enacted the "Drug Price Competition and Patent Term Restoration Act of 1984" (Public Law 98-417) which pertains mainly to human drugs and medical devices. Earlier, patent term restoration bills considered by Congress had included both drugs and agricultural chemicals, but agricultural chemicals were omitted from the 1984 legislation.

S. 1093 was introduced in the 99th Congress to provide for extension of patent terms in the agri-chemical field to compensate for delay caused by government regulation. The bill was subsequently marked up to accommodate modifications proposed by the Administration.

In August, 1986 the Section of Patent, Trademark and Copyright Law approved a resolution favoring the principle of legislation extending the term of patents on agricultural chemicals where the ability to exploit the patented invention had been delayed by government regulation. The Section's resolution also approved S. 1093 of the 99th Congress but favored amendment of that bill to provide that the Congress should establish reasonable fees to cover the costs involved in carrying out governmental activities under the bill.

The Section believes that enactment of legislation along the lines discussed above would encourage innovation in the agri-chemical field and would provide equitable treatment to patents for agri-chemicals which is similar to the treatment afforded to patents for human drugs and medical devices.

Registration as Trademarks of Titles of Single Literary Works

Traditionally, the title of a single motion picture, play, book or other single

literary work, even if arbitrary or endowed with secondary meaning, such as Martha Mitchell's Gone with the Wind, has been viewed as unprotectible. But application of the traditional view has been inconsistent, and there is no question that great value attaches to these titles and names. Justice Cardozo stated the principle in FTC v. Algoma Lumber Co., 291 U.S. 67, 78 (1934):

"The consumer is prejudiced if upon giving an order for one thing, he is supplied with something else . . . in such matters, the public is entitled to get what it chooses. . . ."

The Section believes that the public should be able to rely on titles in making purchases just as the public relies on trademarks, and that legislation is needed to insure protection of titles.

In August, 1986 the Section endorsed the principle that titles of single literary works, motion pictures, theatrical plays, sound recordings and the like, which identify the source of products and satisfy the normal statutory tests for registrability, should not be barred from federal registration as trademarks on the sole ground that they have been used only on a single work.

Accordingly, the Section recommends enactment of appropriate amendment of the Lanham Act to provide for registrability of titles of single literary works.

Gramm-Rudman-Hollings

As Gramm-Rudman-Hollings is currently interpreted, the law covers appropriated funds as well as funds generated from fees paid by corporations and individuals using the services of the Patent and Trademark Office and the Copyright Office. These user fees have been increased in recent years for the specific purpose of funding better and more efficient operations. Since Gramm-Rudman-Hollings is intended to reduce government expenditures, the application of the required budget deduction to agencies or parts of agencies which are substantially or totally funded by user fees is most inappropriate.

The Section adopted a resolution in August, 1986 favoring amendment of Section 255 of the Gramm-Rudman-Hollings law to include an exemption from the mandated budget cuts for funds generated by or equivalent to user fees paid to the Patent and Trademark Office and the Copyright Office.

The Section therefore recommends to the Subcommittee the enactment of appropriate legislation to exempt user fees paid to the Patent and Trademark Office and to the Copyright Office from the budget cuts of Gramm-Rudman-Hollings.

CONCLUSION

On behalf of the Section of Patent, Trademark and Copyright Law I thank the Subcommittee for the opportunity to present the view of the Section in respect of improvements in the law relating to patents and trademarks and other intellectual property. It is sincerely believed that the improvements in the law as proposed would be of important benefit to the United States and would substantially improve competitiveness of U.S. industry and protect U.S. jobs.

The Section would welcome the opportunity to assist the Subcommittee in drafting of the improvement legislation proposed.

AMERICAN BAR ASSOCIATION

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and Copyright Law**

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March 2, 1987

Honorable Dennis DeConcini
Chairman,
Subcommittee on Patents, Copyrights and Trademarks
United States Senate
Committee on the Judiciary
Washington, D.C. 20510

Dear Mr. Chairman:

This is in response to the kind invitation in your letter of February 18, 1987 to provide additional information and materials to supplement the record of the General Oversight Hearing of the Subcommittee, held on February 17, 1987, and to respond to the supplemental questions which you have posed. The responses to your supplemental questions and the additional information are provided under separate headings for ease of reference.

Responses to Supplemental Questions

In a letter of February 18, 1987 the Chairman of the Subcommittee presented two additional questions to which responses were requested.

Question No. 1

- (1) A number of you have identified industrial design protection as a legislative priority. Could you provide some specific examples where a manufacturer had problems obtaining or enforcing a design patent and thereby became a target for copyists?

Response to Question No. 1

As a preface to responding to the Chairman's question, I confirm that at its meeting on February 16, 1987 the American Bar Association House of Delegates reaffirmed its support for copyright-like protection for industrial designs in the following language:

"Resolved, that the American Bar Association reaffirms its longstanding support in principle for legislation providing for the protection of ornamental designs of useful articles, and specifically legislation which would provide a limited term of copyright-like protection for registered designs which are original and distinctive."

In response to the Chairman's request for specific examples, the following three cases illustrate the problems facing U.S. industry in attempting to protect industrial designs.¹

W. Rod Parke v. Milton Industries, Inc.

This case was tried in late 1983 before the U.S. District for the Northern District of Illinois.

The plaintiff in the case was an individual who had designed a unique compressed air blow gun used to clear dirt and other loose materials from machinery, parts, clothing, etc. The plaintiff's design, generally pencil-styled and small enough to be carried in a shirt pocket, was found by the trial Court to be quite different in appearance from blow guns of the prior art. The District Court expressly found that the plaintiff's blow gun had met with "tremendous commercial success". The Court also determined that the plaintiff's sales "dropped dramatically" when the defendant introduced a blow gun which was an admitted copy of the plaintiff's design. The Court stated that the defendant's blow gun would be an infringement of the patent, if valid. The Court found that the prior art examples cited by the Patent and Trademark Office did not "even remotely resemble the plaintiff's blow gun", and the Court further found that the defendant failed to cite any blow guns as prior art but instead relied upon the design of various writing instruments.

Notwithstanding the plaintiff's tremendous commercial success and admitted copying by the defendant and, despite the fact that the plaintiff's design did not

1. For a more comprehensive treatment of examples illustrating the dismal record of the U.S. design patent system, it is recommended that the Subcommittee refer to "Industrial Design Protection in the U.S." by William S. Thompson, published in the American Intellectual Property Law Association's "Selected Legal Papers", Volume IV, Number 1, a copy of which is forwarded along with this statement.

resemble any prior art blow guns, the District Court in a decision dated March 27, 1984, held the plaintiff's U.S. Design Patent No. 261,547 to be invalid for functionality and obviousness in view of the designs of various writing instruments. The U.S. Court of Appeals for the Federal Circuit affirmed in a decision dated January 9, 1985.

It is noteworthy that the plaintiff's blow gun design was also subsequently "knocked-off" by blow gun copies shipped into the United States from Taiwan.

**Peterson Manufacturing Co., Inc. v.
Central Purchasing, Inc.**

In this case the U.S. Court of Appeals for the Federal Circuit affirmed a District Court decision holding U.S. Design Patent No. 261,096 invalid for obviousness on the defendant's motion for summary judgement. The Federal Circuit's decision is reported at 222 USPQ 562 (Fed. Cir. 1984).

The design patent in suit covered a locking wrench. The Federal Circuit acknowledged that differences existed in the jaw configuration of the design over the prior art but held the design patent to be invalid because it failed to meet the stringent unobviousness standard imposed by the design patent statute. In holding the design patent invalid under the present statute the Court added a significant footnote emphasizing the need for copyright-like design protection:

"7. See Judge Rich's review of proposed design legislation in his concurring opinion in *re Nalbandian*, 661 F.2d at 1218-19, 211 USPQ at 786-87. The need for statutory reform is reiterated." (222 USPQ at 568).

**Digital Equipment Corp. v.
C. Itoh and Co., Ltd.**

This case was decided by the U.S. District Court for the District of New Jersey and is reported at 229 USPQ 598 (1985). It did not involve a design patent but instead provides a classic example of the kind of subject matter where copyright-like protection for industrial designs could make a real difference to U.S. manufacturers. In this case Digital Equipment moved the Court for a preliminary injunction based upon theories of trademark and copyright infringement. Digital's VT220 video display terminal was so faithfully copied by the defendant C. Itoh, a well known Japanese company, that the Court referred to the defendant's design as a "replication of the physical appearance of the VT220 Terminal" (229 USPQ at 600).

The type of misappropriation of design represented in the Digital Equipment case clearly has an adverse impact on the balance of payments between the United States and Japan.

Further Comments

The analysis by Mr. Thompson in his paper identified above establishes that in a two year period, 1984 and 1985, only two cases were found in which a design patentee obtained a fully satisfactory remedy. The study also shows that design patent cases average only about ten per year. Mr. Thompson's analysis illustrates that the design patent system in the U.S. is essentially a non-system.

As stated by Judge Giles Rich of the U.S. Court of Appeals for the Federal Circuit, and as recommended by the American Bar Association, it is clearly time for the United States to adopt a system for protection of industrial designs which will put design protection in our country on an effective level, comparable to the level of protection available in every other industrialized country in the world.

Question No. 2

- (2) Could you explain in more detail the problems associated with trademark fees and how the funds are being used?

Response to Question No. 2

My written Statement at the Subcommittee hearing makes reference to a resolution of the ABA Section of Patent, Trademark and Copyright Law adopted in August, 1986 favoring amendment of Gramm-Rudman-Hollings to exempt user fee payments to the Patent and Trademark Office and the Copyright Office. This resolution is as follows:

"RESOLVED, That the Section of Patent, Trademark and Copyright law favors in principle the enactment of legislation amending the "Balanced Budget and Emergency Deficit Control Act of 1985" commonly referred to as Gramm-Rudman-Hollings, but including in Section 255 of the law an exemption from the budget cuts mandated by the law for funds generated by, or equivalent to, user fees paid to the Patent and Trademark Office and the Copyright Office."

The reasoning behind this resolution rests on the belief that intellectual property rights and the government agencies charged with the responsibility of protecting those rights should be exempted from Gramm-Rudman-Hollings insofar as user fees are concerned. Gramm-Rudman-Hollings as currently interpreted covers both appropriated funds and user fee generated funds. Since Gramm-Rudman-Hollings was intended to reduce government expenditures, application of the 4.3% budget reduction of the statute to agencies or parts of agencies which are substantially or totally funded by user fees is most inappropriate.

The trademark side of the Patent and Trademark Office has been completely supported by user fees since 1982. The sole purpose of enacting 35 U.S.C. 42(c) in 1982 was to insure that trademark user fee revenue would not be diverted from the support of the trademark activities of the Patent and Trademark Office. Section 42(c) provides: ". . . Fees available to the Commissioner under section 31 of the [Lanham Act] shall be used exclusively for the processing of trademark registrations and for other services and materials related to trademarks." Gramm-Rudman-Hollings thus takes 4.3% of the trademark user fees collected and distributes them to other federal agencies. This contradicts the purpose for which 35 U.S.C. 42(c) was enacted. Users of the federal trademark registration system were told in 1982 that they could have the most efficient and modern system in the world if they were willing to pay for it. Now users are told that they must not only pay 100% of the cost of the trademark registration system but also must pay an additional 4.3% tax for the privilege of totally supporting that system. This is manifestly unjust.

Improvements in Foreign Protection of Intellectual Property

At the oral hearing on February 17, 1987 I informed the Subcommittee that the House of Delegates of the American Bar Association on February 16, 1987 had adopted two resolutions aimed at improving the level of intellectual property protection obtainable for U.S. citizens in foreign countries. These resolutions are as follows:

"Resolved, that the American Bar Association approves in principle administrative action by the Federal Government to improve the level of intellectual property protection obtainable in foreign countries by United States citizens, and specifically, the Section supports the initiation of proceedings by the Office of the United States Trade Representative to secure adequate and effective levels of protection in countries which trade with the United States."

"Resolved, that the American Bar Association favors the government of the United States of America taking appropriate measures, consistent with other concurrent bilateral and multilateral initiatives for the protection of intellectual property rights, to (i) insure that the upcoming round of multilateral trade negotiations under the auspices of the General Agreement on Tariffs and Trade ("GATT") will consider the lack of adequate and effective protection for intellectual property rights to be a non-tariff barrier to trade, (ii) press, in such negotiations, for the early conclusion of a code such as the pending draft GATT Code on Measures to Discourage the Importation of Counterfeit Goods, and (iii) seek actively within GATT to negotiate and conclude codes and agreements to deal more generally with ineffective and inadequate international protection for intellectual property rights."

Although these resolutions do not expressly recommend enactment of specific legislation, the Section would welcome the opportunity of working with the Subcommittee

in furthering the cause of appropriate legislation for enhancing the level of protection for intellectual property of U.S. citizens in foreign countries.

**Proposed Legislation Pertaining to Termination of
Patent License Agreements Upon Challenge to Validity**

The following views are being presented only on behalf of the Section of Patent, Trademark and Copyright Law and have not been approved by the House of Delegates or the Board of Governors of the American Bar Association, and should not be construed as representing the position of the ABA.

The decision of the U.S. Supreme Court in Lear, Inc. v. Adkins, 395 U.S. 653 (1969) holds that a licensee under a patent license is not estopped from challenging validity of the patent under which he is licensed. While this broad principle is just, Lear v. Adkins left a number of unanswered questions respecting treatment of royalties under a patent license agreement during pendency of a case testing patent validity.

In August, 1986, the Section adopted the following resolution:

"Resolved, that the Section of Patent, Trademark and Copyright Law favors in principle amendment of the patent laws to provide that parties to a patent license agreement may agree that either or both of them can terminate the license if the licensee challenges validity, and, if the licensee has the right to terminate, the agreement may further provide that the licensee's royalty obligation shall continue until a final determination of invalidity is reached or until such right to terminate is exercised; and specifically, the Section favors enactment of Title III (LICENSEE CHALLENGES TO PATENT VALIDITY) of the "Intellectual Property Rights Protection and Enforcement Act of 1985", Moorhead H.R. 3776 (99th Congress).

The Section believes that the principle supported in this resolution, if enacted into law, would strike an appropriate balance, permitting the licensee under a patent license to challenge validity of the underlying patent while still affording the licensor equitable treatment during pendency of the litigation.

Berne Convention for the Protection of Literary and Artistic Works

Although not germane to the February 17, 1987 hearing of the Subcommittee, the Berne Convention is indeed within the Subcommittee's jurisdiction. As reported during oral hearing, the American Bar Association's House of Delegates adopted the following resolution during its meeting on February 16, 1987:

"RESOLVED, that the American Bar Association approves in principle, and favors enactment of legislation to permit, adherence by the United States to the Berne Convention for the Protection of Literary and Artistic Works."

It is hoped that the Subcommittee will indeed address the question of appropriate legislation to permit adherence by the United States to the Berne Convention. It is

believed that this is the most important international copyright issue facing the United States today.

**Recommended Experience of Judges for
Appointment to Specialized Federal Courts**

Although the matter of experience of Federal Judges is not of direct concern to the Subcommittee, the matter is of concern to the Committee on the Judiciary as a whole.

The following views are being presented only on behalf of the Section of Patent, Trademark and Copyright Law and have not been approved by the House of Delegates or the Board of Governors of the American Bar Association, and should not be construed as representing the position of the ABA.

On October 1, 1982, the Court of Customs and Patent Appeals was merged with the U.S. Court of Claims to form the U.S. Court of Appeals for the Federal Circuit. The Federal Circuit has exclusive jurisdiction over appeals of all U.S. District Court decisions in patent infringement actions. Due to the complexity of patent infringement cases approximately half of the time of the Federal Circuit is spent dealing with patent infringement questions. And yet only three of the present twelve judges of the Federal Circuit were patent-experienced before appointment to the Court. In recognition of the responsibility of the Federal Circuit and the complexity of patent infringement actions the Section of Patent, Trademark and Copyright Law adopted the following resolution at its Annual Meeting in August, 1983, the first meeting of the Section after establishment of the Federal Circuit:

"Resolved, that the Section of Patent, Trademark and Copyright Law reaffirms, in principle, its support for appointment of lawyers to the Federal judiciary having experience and training in patent law, and specifically, favors the appointment of lawyers having experience in patent matters to the Court of Appeals for the Federal Circuit, and further favors such appointments to the CAFC in sufficient numbers to promote uniformity in that Court's interpretation of the patent laws taking into account the number and complexity of the patent cases before that Court and the workloads of the judges."

Due to the overriding impact of the Court of Appeals for the Federal Circuit on the patent laws of the United States, the Section urges that the Subcommittee use its best efforts to urge nomination and support confirmation of patent-experienced judges of top qualification to the Federal Circuit bench.

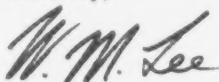
Conclusion

Better protection of intellectual property in the United States and improved

protection of intellectual property of U.S. citizens in other countries are critical in the effort to improve competitiveness of U.S. industry. U.S. jobs and the position of the United States as the foremost industrial and creative power in the world are at stake.

On behalf of the American Bar Association and its Section of Patent, Trademark and Copyright Law I again thank the Chairman and the Subcommittee for the opportunity to present the views of the ABA and the Section with respect to proposed improvements in the law pertaining to patents, trademarks and other intellectual property. In addition, I applaud the expeditious and active interest of the Subcommittee toward improvement of the intellectual property laws. I am pleased to offer continuing help in this important effort.

Sincerely,



William Marshall Lee
Chairman

Senator DECONCINI. Thank you, Mr. Lee. We will leave the record open for 2 weeks to add to it.

Mr. BANNER, you mentioned your example of a three-legged stool for this process of work and I gather that maybe you think—correct me, please, if I am wrong—that we put a little too much pressure on the Patent Office, that everything really is OK, and we ought to just let it roll along. Can you be a little more detailed on just how much pressure Congress should demand and what kind of productivity we should expect from that office with the dollars we invest? Or is this some area that you think ought not to relate the quantity of work accomplished by how many dollars you put into that agency?

Mr. BANNER. It is a matter I think, Mr. Chairman, not of decreasing the demands that the Congress may put on the office. It is a matter of increasing the demands. You should expect more. You should increase the speed of examination, but you should increase the quality of their library, and you should increase the stature of the examiners and give them more time to do their job better.

Senator DECONCINI. Do you think that can be done by more emphasis on more assets for them?

Mr. BANNER. I think it is a mistake to continually talk about nothing but reducing the backlog, getting patents out in 18 months, et cetera. I think in your subcommittee, for example, you might very well be interested in knowing the quality of patents coming out. What does the public think? What do the users think? You mentioned the consumers. These are the people using the system, and that is where you should go to find out what is happening.

Senator DECONCINI. Well, I don't believe that they think much of the system. I believe they think that it is too long, and that it is

unreliable. At least that is what I have determined from the information I get. I may be turned around on that after further hearings, but that is what I see by some of these studies.

Mr. BANNER. Patents should issue promptly, but you should be able to rely on them.

Senator DECONCINI. Mr. Kline in his statement expressed concern with the Supreme Court decision in *Lear v. Adkins* and what it has done to the contract rights of the licensor. If the panel would elaborate on this issue—I will start with you, Mr. Kline—what are your suggestions on what we might do legislatively that would balance the inequities between the licensor and the licensee.

This case is very disturbing to this Senator. I am not quite sure how to go about it. I find the arguments of the Supreme Court in this case quite contrary to the contractual rights as I perceived them to be of the owner of a patent, and I wonder if you have any suggestions on legislation.

Mr. KLINE. Well, Mr. Chairman, in our statement we did refer to the bill that had been passed by the Senate Judiciary Committee in the 98th Congress, and that bill was designed to bring these equities more into balance in that it would have required the licensee to make a choice as to what he was going to do and also give more options to the licensor. And I would just for quick reference refer to that bill that was considered by the Judiciary Committee.

Senator DECONCINI. You think that would be a substantial improvement—

Mr. KLINE. Yes.

Senator DECONCINI [continuing]. If that bill were reconsidered and passed?

Mr. KLINE. Yes.

Senator DECONCINI. Mr. Cleary, do you have any suggestions for us?

Mr. CLEARY. I do not on this issue, Senator.

Senator DECONCINI. Mr. Lee, do you have any thoughts?

Mr. LEE. Mr. Chairman, I am embarrassed in that I do not have blanket authority from the ABA to speak to this. However, I shall be pleased to follow that process and advise the subcommittee and the chairman—

Senator DECONCINI. Anything you care to submit to us, we would be glad to have it.

Mr. Kline, if the legislation you were talking about were enacted into law, would that in essence accomplish what you think we ought to make as corrective measures in the Supreme Court decision?

Mr. KLINE. As I best recall, Mr. Chairman, yes, it would; but there again we would be glad to submit further comments on this to you.

Senator DECONCINI. Thank you. It would be helpful if you would be as specific as you would care to be. I am interested in pursuing it legislatively, but I would like to have the input from some of you on what you think would be most helpful.

Does the staff or any members have any questions they wish to submit?

Gentlemen, I thank you for your time and your interest in this subject matter. It has been very helpful and we look forward to working with you in the future.

The subcommittee will stand in recess, subject to the call of the Chair.

[Whereupon, at 12:25 p.m., the subcommittee adjourned, to reconvene subject to call of the Chair.]

APPENDIX

ADDITIONAL STATEMENTS

STATEMENT OF RONALD T. REILING
ON BEHALF OF DIGITAL EQUIPMENT CORPORATION
TO THE SUBCOMMITTEE ON PATENTS, TRADEMARKS & COPYRIGHTS
OF THE SENATE COMMITTEE ON THE JUDICIARY
ON PROPOSED PATENT AND COPYRIGHT
MISUSE DOCTRINE REFORM

Legislation to reform the law of patent misuse is currently pending before the Patents, Trademarks & Copyrights Subcommittee as Section 115 of S. 635. Digital Equipment Corporation believes that reform of the doctrine of patent misuse and the closely related doctrine of copyright misuse is long overdue and supports enactment of legislation on this subject during the 100th Congress.

Digital Equipment Corporation, with revenues last year of nearly 8 billion, is the second largest computer company in the world and the leading supplier of networked computer systems. Digital has over 100,000 employees worldwide and sales and manufacturing operations in 40 countries, as well as every state. Digital maintains a commitment to a U.S. presence, reflected in a 10-year profile of 70% domestic employment.

Digital spends 12 cents of every dollar of revenue on research and development -- or over a billion dollars this year. It should thus come as little surprise that the integrity of its intellectual property rights is critical to Digital's competitive success.

One of the cornerstones of Digital's recent emergence as an industry leader has been the world-wide acceptance of its patented VAX computer family. The computer architecture forming the heart of the VAX was reduced to the size of a microchip by Digital engineers in 1984, and the "MicroVAX" computer chip was the first 32-bit computer processor-on-a-chip registered under the Semiconductor chip Protection Act. The software associated with the VAX computer is protected by copyright, trademark, and trade secret law.

The proprietary innovations of Digital and its competitors are the raw material of the information age. Assurance of the integrity of intellectual property and enforcement of intellectual property rights are essential elements of America's high technology future.

Background

Legislation was introduced in the 98th Congress (S. 1841, tit. IV) to reform the patent and copyright misuse doctrines as part of the administration's National Productivity and Innovation Act. Hearings on the bill reflected extensive support for congressional reform of these doctrines (although concern was expressed over the proposed statutory language).

Need for Reform

Digital Equipment Corporation, like all intellectual property owners in high technology industries, is becoming increasingly aware of the need for greater predictability and clarity relating to enforcement of its rights. The doctrines of patent and copyright misuse, as presently applied, promote substantial confusion; Digital believes that reform and clarification of these doctrines are necessary.

The doctrines provide that patent or copyright owners may not enforce their patents or copyrights if they have engaged in conduct deemed "misuse." Judicial interpretations of these doctrine have found misuse even where the patent or copyright owner's licensing conduct has no demonstrated anticompetitive effect and has not violated the antitrust laws. The doctrine as it now exists therefore chills distribution of intellectual property rights by subjecting patent and copyright owners to the risk of being unable to enforce those rights if their licensing activities are deemed to be misuse.

Patent and copyright misuse are judicially created doctrines that were developed prior to the enactment of the antitrust laws as an attempt to curb certain anticompetitive practices of patent and copyright owners. The doctrines were used by courts to promote public competition policy. Today the basis for the competitive law resides in the antitrust statutes. There is no reason why courts should treat patent and copyright owners more harshly than other persons under the antitrust laws.

These misuse doctrines are inappropriate to this era when intellectual property rights are essential components of technological and economic growth and international competitiveness. The current misuse doctrines hinder development and distribution of technological advances by requiring only that a court find "some" anticompetitive effect.

The antitrust laws and a hundred years of antitrust precedents set the appropriate standards for measuring and condemning anticompetitive effects. Patent and copyright owners should not, through these doctrines of misuse, be subjected to a lower standard that imperils their intellectual property rights.

Proposed Legislation

Section 115 of S. 635 addresses only patent misuse, while title IV of S. 1841 addressed both patent and copyright misuse. We understand that this change was not due to any lack of need to limit the copyright misuse doctrine where it is applied, but rather because there remains substantial doubt whether there really is an established doctrine of copyright misuse.

Pending legislation (S. 635, § 115) enumerates a list of specific conduct that shall not be held to be misuse unless it violates the antitrust laws. Testimony at the Subcommittee's 1984 hearings expressed concern about this list: it includes some conduct that has not been the subject of judicial decisions and excludes some licensing activities that might be alleged to constitute misuse.

During 1984 Subcommittee hearings the AIPLA witness proposed a new formulation for legislative reform of the misuse doctrine. Digital Equipment Corporation supports this formulation of the legislative reform proposal.

Conclusion

Digital Equipment Corporation strongly urges the Subcommittee to approve legislation (based upon the AIPLA formulation of statutory language) to reform and clarify the doctrines of patent and copyright misuse. Appended to this statement are two memoranda, prepared by Ropes & Gray, addressing separately the need for reform of the patent and copyright misuse doctrines.

We believe that enactment of this legislation will further our nation's interest in enhancing our industrial competitiveness through improving enforceability of intellectual property rights.

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THE NEED FOR LEGISLATIVE REFORM OF THE LAW OF PATENT MISUSE

Pending before Congress are proposals to clarify application of the patent misuse doctrine. Legislation proposed by the administration would require that certain conduct alleged adversely to affect competition must constitute an antitrust violation in order to support a misuse defense to a patent infringement action. (S. 635, § 115; H.R. 1603, § 107.)

The subject of patent misuse is not new to Congress. Legislation introduced in the 98th Congress (S. 1841, H.R. 5041) addressed the need for reform of the law of patent misuse through provisions similar to those currently under consideration. Hearings were conducted before the Senate Subcommittee on Patents, Copyrights and Trademarks of the Senate Committee on the Judiciary. The testimony received at these hearings was overwhelmingly in favor of the proposed reform of the law of patent misuse; however, the provisions for reform of patent misuse law before the 98th Congress were never acted on by the Subcommittee.

This memorandum describes the origins of the law of patent misuse and the misconceptions upon which current law is based. It argues that the hearings before the 98th Congress have conclusively established the need for reform and urges that Congress act promptly, without further delay, to implement the proposals for reform currently before Congress.

I. Origin and Development of the Doctrine of Patent Misuse.

Patent misuse is a judicially created doctrine that allows a patent owner's overextension of his patent rights to be asserted as a defense in an action by the patent owner to enforce the patent. If the patent owner is held to have overextended, or "misused," his patent rights, he will be barred from enforcing the patent so long as the misuse continues. Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488 (1942).

The doctrine of patent misuse originally emerged as a judicial response to the patent owner's practice of conditioning the sale or license of patented inventions upon the purchase or license of additional products. This practice was at first approved by courts, including the United States Supreme Court. In Henry v. A.B. Dick Co., 224 U.S. 1 (1912), the Court upheld a patent owner's practice of requiring, as a condition to sale of a patented invention (mimeograph machine), that the invention be used only with certain supplies (ink) provided by the patent owner.

By 1917, however, the Court's attitude had changed. Citing the enactment of Section 3 of the Clayton Act as

evidence that such conditional sales were against public policy, the Court held that the conditions to the sale were unenforceable regardless of whether they violated the Clayton Act. In Motion Picture Patents Co. v. Universal Film Manufacturing Co., 243 U.S. 502 (1917), the owner of a patent for a film feeder used in the projection of motion pictures sought to license the feeder on the condition that the licensee show only films leased from persons approved by the patent owner. The patented film feeder was dramatically superior to other film feeders on the market, giving the patent owner significant market power. The Court refused to enforce the patent, finding that imposing the condition would extend the patent owner's power beyond the scope of his patent rights. *Id.* at 518.

Cases following Motion Picture Patents continued to expand the doctrine of patent misuse. In Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488 (1942), in which the term "patent misuse" appears for the first time, the United States Supreme Court held that the defense was available even to a person who knowingly infringed a valid patent and was not affected by the conduct held to be misuse. The patent owner in Morton Salt had licensed its patented salt machine upon the condition that the licensee use the machine with salt tablets purchased from the patent owner. The Court held that this use of the patent exceeded the limited grant of the Patent Act, that the patent owner had misused the patent, and was therefore entitled to the protection of the Act. 314 U.S. at 491. The Court found it unnecessary to determine whether the patent owner's action had violated the antitrust law. 314 U.S. at 494.

In Morton Salt, as in Motion Picture Patents, the Court ignored the antitrust issues presented and based its decision on public policy grounds. From this origin courts have developed the well-known principle that a claim of patent misuse need not be supported by a showing of violation of the antitrust laws, but only by a showing of some anticompetitive effect. See, e.g., Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 140-41 (1969); Duplan Corp. v. Deering Milliken, Inc., 444 F. Supp. 648 (D.S.C. 1977), *aff'd* in relevant part, 594 F.2d 979 (4th Cir. 1979). In most courts, the Morton Salt principles, interpreted as they were in Zenith Radio and Duplan, remain the established law of patent misuse. See Section of Antitrust Law of the American Bar Association, Antitrust Law Developments (2d) 488-89 (1984), and cases cited therein.

Recently, however, the Seventh Circuit cast doubt upon the reasoning of Motion Picture Patents, Morton Salt, and the line of cases following these decisions. In USM Corporation v. SPS Technologies, Inc., 694 F.2d 505 (7th Cir. 1982), cert. denied, 462 U.S. 1107 (1983), the Seventh Circuit Court of Appeals, in dicta, questioned whether the reasoning of Motion Picture Patents accurately characterized the economic effect of practices held to constitute patent misuse. At issue in USM Corporation was whether the inclusion of a differential royalty schedule in a license agreement constitutes patent misuse. Citing the facts of several prior findings of patent misuse, including Brulotte v. Thys Co., 379 U.S. 29 (1964) (patent license extending license fees beyond license period), Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 133-40 (1969) (patent royalties measured by the sale of unpatented products containing the patented item), and Stewart v. Mo-Trim, Inc., 192 U.S.P.Q. 410 (S.D. Ohio 1975) (licensees required not to make items competing with the patented item), Judge Posner noted that:

As an original matter one might question whether any of these practices really "extends" the patent. The patentee who insists on limiting the freedom of his purchaser or licensee . . . will have to compensate the purchaser for the restriction by charging a lower price for the use of the patent True, a tie-in can be a method of price discrimination. It enables the patent owner to vary the amount he charges for the use of the patent by the intensity of each user's demand for the patent But since . . . there is no principle that patent owners may not engage in price discrimination, it is unclear why one form of discrimination, the tie-in, alone is forbidden.

Id. at 510-11.

In addition, the USM Corporation court questioned the appropriateness of the low showing of anticompetitive effect required to establish patent misuse. Arguing that patent misuse claims should be tested under standard antitrust principles, the court stated that, "Our law is not rich in alternative concepts of monopolistic abuse and it is rather late in the day to try to develop one without in the process subjecting the rights of patent holders to debilitating uncertainty." Id. at 512.

II. The Misconceptions Embodied in Current Patent Misuse Doctrine Require Correction and Clarification.

The evolution of the patent misuse doctrine from A.B. Dick through Motion Picture Patents to USM Corporation shows the ascent and potential decline of a doctrine that is based on faulty legal and economic principles and is inconsistent with the effect it is intended to achieve. The patent misuse doctrine as first enunciated in Motion Picture Patents was based upon the Supreme Court's misinterpretation of the public policy implications of Section 3 of the Clayton Act and its failure to apply the newly enacted antitrust law. Later cases perpetuated these errors, especially in accepting the rule that conduct insufficient to constitute a violation of the antitrust laws can support a claim of patent misuse. And underlying the development of the doctrine was the faulty assumption that sale or licensing agreements linking patented to unpatented products necessarily had an anticompetitive and undesirable effect.

As discussed above, early cases dealing with the "tying" of patented and unpatented goods were favorable to these arrangements. The Supreme Court stated that if the right of the patent owner to do so was to be limited, that limitation should be achieved through legislative, rather than judicial, enactment. 224 U.S. at 35.

The Congress did, in fact, address the A.B. Dick situation of a patent owner's requiring his licensees to buy additional products from the patent owner as a condition to the license agreement. Section 3 of the Clayton Act was intended to address the "precise evil" presented in A.B. Dick. See 51 Cong. Rec. 15, 937 (1914) (Senator Nelson). Section 3 of the Clayton Act, 15 U.S.C. § 14 (1982), provides that it is unlawful to lease or sell:

goods, wares, merchandise, machinery, supplies or other commodities, whether patented or unpatented . . . on the condition . . . that the lessee or purchaser thereof shall not use or deal in the goods . . . of a competitor or competitors of the lessor or seller, where the effect

of . . . such condition . . . may be to substantially lessen competition or tend to create a monopoly in any line of commerce. (Emphasis added.)

The language of Section 3 is unambiguous: the specified conduct is to be unlawful only when that conduct has a substantial anticompetitive effect. Legislative history shows that the anticompetitive effect required for violation of Section 3 was intended to be equal to that required for violation of the Sherman Act. See Comment, Standard Antitrust Analysis and the Doctrine of Patent Misuse, 46 U. Pitt. L. Rev. 209, 219-20 (1984). However, the Supreme Court, in interpreting Section 3 as an indication of "public policy," relied only on the general prohibition and ignored the limitation of that prohibition to actions with substantial, antitrust-type anticompetitive effect.

The Supreme Court plainly borrowed selectively from Section 3 of the Clayton Act in formulating the public policy rationale of Motion Picture Patents and Morton Salt. In doing so, the Court created a doctrine that is inconsistent with the standard for liability under the antitrust laws and that treats patent owners more harshly than was intended by the legislation upon which the Court relied in creating the doctrine.

The law of patent misuse, as developed from these early cases, is essentially a per se rule. In Morton Salt the patent owner's license of its patented machine on the condition that the licensee purchase supplies for use with the machine was not shown to have any specific anticompetitive effect. Rather, the practice was held to be invalid on grounds of public policy. In Laitram Corp. v. King Crab Inc., 244 F. Supp. 9, modification den., 245 F. Supp. 1019 (D. Alaska 1965), a patent owner's license of West Coast licensees at a rate different than that charged Gulf area licensees was similarly found to be patent misuse without a showing of any anticompetitive effect. In both Morton Salt and Laitram Corp., the court inferred anticompetitive effect from the challenged licensing practice. Yet, these practices could in fact have had a procompetitive effect. The practice held invalid in Morton Salt could have encouraged competition by linking the price charged for the patented machine directly to the amount of use it received by each licensee. Receipt of higher royalties from large-scale users could allow the patent owner to demand lower royalties from small-scale users, thereby increasing the availability of the patent on the market. Similarly, in Laitram Corp., the patented device, a shrimp peeler, was more valuable to the West Coast licensees than to the Gulf licensees due to the difference in size between Western and Gulf shrimp (Western shrimp are much smaller). The different royalties merely recognized the greater value of the device to the West Coast licensees and at the same time allowed the device to be made available to a greater number of licensees than it would have been at a median price.

These decisions finding patent misuse in the absence of a showing of conduct violative of the antitrust laws may themselves thus be anticompetitive: the low standard for finding patent misuse and the harshness of the penalty for such misuse -- unenforceability of the patent -- can discourage patent owners from licensing their patents. Because many patent owners do not themselves have the resources to exploit their patents to full potential, this will hinder the development of new technology and reduce its potential contributions to society at large.

III. The History of Patent Misuse in Congress.

The topic of patent misuse is not new to Congress. Legislation for reform of the law of patent misuse was introduced in the 98th Congress as title IV, "Patent and Copyright Misuse," of S. 1841. Hearings on S. 1841 revealed extensive support for the proposed revision of patent and copyright law to provide that certain licensing and other practices should not be held to constitute misuse unless that conduct violates the antitrust laws. S. 1841, tit. IV, § 401(d). Testimony submitted by John C. Dorfman, Chairman of the American Bar Association Section on Patent, Trademark, and Copyright Law, supported proposed title IV on behalf of the ABA. Mr. Dorfman noted that the subject matter of title IV had been "of grave concern to the Association for a least some thirty years," citing the Association's 1967 resolution approving, in principle, legislation for the reform of patent misuse. Patent Law Improvements Act, Hearing on S. 1535 and S. 1841 before the Subcomm. on Patents, Copyrights and Trademarks of the Senate Comm. on the Judiciary, 98th Cong. 2d Sess. 105 (1984) [hereinafter cited as "Hearing"]. Testimony and statements by Donald W. Banner, President of Intellectual Property Owners, Inc., Bernarr R. Pravel, President, American Intellectual Property Law Association, and John W. Schlicher, Esq., Townsend & Townsend, also supported enactment of title IV. Their testimony asserted that the proposed reform would "add predictability to the law governing licensing practices" and "eliminate a hodgepodge of arbitrary rules developed by courts during the era when court were hostile to licensing," (testimony of D. Banner, Hearing at 44, 52), that the proposed modifications were "necessary elements of the Act's overall purpose of encouraging intellectual property licensing," and that "[i]t would be inconsistent to limit damages for antitrust violations in the context of licensing arrangements and leave a misuse doctrine in place which confronts intellectual property holders with the prospect of being unable to enforce their patents or copyrights because of economic provisions in licensing agreements which, while they may be somewhat anticompetitive, do not even constitute antitrust violations," (supplemental statement of B. Pravel, Hearing at 91).

Significantly, none of the witnesses opposed enactment of Title IV, nor did the correspondence received in connection with the hearings contain any objections to the proposed reform. See Hearing at 242-45.

Title IV was eventually dropped from S. 1841, not because of opposition to the proposal, but more for lack of strong support and an uneasiness over the DOJ's list of covered conduct. The need for reform remains, however, and commentators on the topic of patent misuse have continued to reinforce the testimony presented in the hearings of the 98th Congress. Congress should act now, on the basis of the hearings before the 98th Congress and the continuing need for reform, to enact the proposed legislation on patent misuse.

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May 11, 1987

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THE NEED FOR LEGISLATIVE REFORM OF
THE LAW OF COPYRIGHT MISUSE

Pending before Congress are proposals to clarify application of the patent misuse doctrine. Legislation proposed by the administration would require that certain conduct alleged adversely to affect competition must constitute an antitrust violation in order to support a misuse defense to a patent infringement action. (S. 635, § 115; H.R. 1603, § 107.)

Legislation originally introduced in the 98th Congress would have applied the same rules to allegations of copyright misuse. (S. 1841; H.R. 5041.) The provisions relating to copyright misuse, however, did not reappear in the bills introduced in the 100th Congress. This memorandum addresses the origins and development of the law of copyright misuse, compares that doctrine with patent misuse, and argues that Congress should address both doctrines when acting on pending legislation.

1. Origin and Development of the Doctrine of Copyright Misuse.

Copyright misuse may constitute an affirmative defense to a charge of copyright infringement that, if upheld, prevents enforcement of the copyright. It is based on the principle that a copyright owner holds the exclusive rights enumerated by the Copyright Act, 17 U.S.C. § 101 et. seq., and no others. An attempt to extend the owner's exclusive rights beyond those granted by statute may have an anticompetitive effect, possibly violative of the antitrust laws, and constitute copyright misuse. In a suit by the copyright owner against an alleged infringer, the infringer may raise the copyright misuse as an affirmative defense. If the copyright holder is found to have misused the copyright, he will be denied relief against the infringer until the misuse ceases. See Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488 (1942) (patent misuse case).

As discussed more fully below, the doctrine of copyright misuse grew from the previously developed doctrine of patent misuse. In the leading case of Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488 (1942), the defendant in a patent infringement case showed that the plaintiff had unlawfully extended its patent by requiring that nonpatented goods be purchased with the patented articles. The Court held that to enforce the patent under such circumstances would be contrary to public policy, 314 U.S. at 493, and dismissed the complaint.

Courts began to extend the doctrine of misuse to

copyright cases as well. See M. Witmark & Sons v. Jensen, 80 F. Supp. 843 (D. Minn. 1948); Alfred Bell & Co. v. Catalda Fine Arts Inc., 74 F. Supp. 973, 978 (S.D.N.Y. 1947), aff'd, 191 F.2d 99 (2d Cir. 1951). The decisions of the United States Supreme Court in United States v. Paramount Pictures, Inc., 334 U.S. 131 (1948), and United States v. Loew's, Inc., 371 U.S. 38 (1962), supported this development. In Paramount Pictures, the Supreme Court held that block-booking (the practice of licensing motion pictures on the condition that the licensee will license additional motion pictures from the licensor) was illegal. The Court affirmed the holding of the lower court on the block-booking issue, stating: the "enlargement of the monopoly of the copyright was condemned below in reliance on the principle which forbids the owner of a patent to condition its use on the purchase or use of patented or unpatented materials." 334 U.S. at 157 (citing Morton Salt).

In Loew's the Court again considered the legality of block-booking practices, this time in the context of television. The United States government had brought an antitrust action against Loew's. At issue was the question whether the defendant had sufficient market power to have violated the antitrust laws by tying. In holding that it did have such power, the Court stated that sufficient market power was presumed "when the tying product is patented or copyrighted. [Citations omitted.] This principle grew out of a long line of patent cases which had eventuated in the doctrine that a patentee who utilized tying arrangements would be denied all relief against all infringements of his patent." 371 U.S. at 45-46 (citing patent misuse cases, including Morton Salt). The Court's language sanctions the application of patent misuse law to copyright cases and the resulting doctrine of copyright misuse.

The Supreme Court has never directly spoken on the issue of copyright misuse, but Paramount Pictures and Loew's suggest that it may be a valid defense to a copyright infringement action, and that the defense will be determined by reference to cases on patent misuse. Federal district and appellate courts often recognize the defense of copyright misuse and apply the doctrine. Still, uncertainty remains, as discussed below.

2. The Doctrine of Copyright Misuse Requires Legislative Clarification.

The doctrine of copyright misuse, as developed from the doctrine of patent misuse, remains unclear and is inconsistently applied by courts. Commentators have noted of copyright misuse that "at present its ultimate scope is in doubt," E. Kintner & J. Lahr, Intellectual Property Law Primer 450 (1982), and that "[t]here has been considerable controversy over the application of the misuse doctrine of copyright law," Comment, Copyright Misuse and Cable T.V., 35 Fed. Comm. L.J. 347, 354 (1983). Federal courts disagree on whether copyright misuse is a valid defense to a claim of copyright infringement and, if it is a valid defense, when that defense is available. Compare the results reached by the courts in the following cases where copyright infringers raised the defense of copyright misuse (sometimes referred to also as the equitable defense of "unclean hands").

In Alfred Bell & Co. v. Catalda Fine Arts, Inc., 74 F. Supp. 973, 978 (S.D.N.Y. 1947), aff'd, 191 F.2d 99 (2d Cir. 1951), a dealer in copyrighted mezzotints sued a

lithographer who sold color lithographs of the mezzotints. The dealer sued for copyright infringement and the defendant cross-claimed for copyright misuse. The district court held that although the plaintiff had violated the antitrust laws by combining with other dealers to maintain prices, the court would not extend the theory of patent abuse as developed in Morton Salt and Mercoide to the copyright case at bar.

On appeal, the Second Circuit affirmed the district court decision but applied a different analysis. The court stated "We have here a conflict of policies: (a) that of preventing piracy of copyrighted matter and (b) that of enforcing the anti-trust laws." 191 F.2d at 106. The court's analysis balanced the copyright and antitrust considerations and also took into account the respective culpability of the parties. The court held for the plaintiff, reasoning that, given the defendants' more culpable behavior, copyright considerations should outweigh antitrust considerations. Id.

In 1962, as discussed above, the United States Supreme Court suggested that the law developed in patent misuse cases should be applied to copyright cases as well. United States v. Loew's, 371 U.S. 38, 45-46 (1962). Yet courts have been hesitant to embrace this suggestion. In Edward B. Marks Music Corp. v. Colorado Magnetics, Inc., 497 F.2d 285 (10th Cir. 1974), cert. den., 419 U.S. 1120 (1975), for example, the court indicated doubt about whether an antitrust violation was a defense (i.e. a copyright misuse defense) at all. Similarly, in Orth-O-Vision v. Home Box Office, 474 F. Supp. 672, 686 (S.D.N.Y. 1979), the court noted that the United States Supreme Court "has not expressly held that a court of equity ought to decline to enjoin infringement where the copyright owner is engaged in such anticompetitive activity." The court continued: "Even if the rationale of Mercoide and Morton Salt were extended to copyrights, Orth-O-Vision has failed to establish its antitrust defense Id.

In Marks, Marks sued Colorado Magnetics (a sound tape producer) for infringement of copyrighted musical compositions. Colorado Magnetics raised the defense of copyright misuse based on Marks' pricing policies and other action alleged to be violative of the antitrust laws. The court held that "[a]ssuming arguendo that an antitrust violation is a defense in a copyright infringement action," the record did not support a finding of such misuse. Id. at 290. The court applied a balancing analysis, citing Alfred Bell and Co., and concluded that "Marks is not precluded from relief because of any possible misconduct on its part." Id. at 291. The court noted that one seeking equitable relief need not come into court with "spotless hands," but it did not address the question of how clean his hands must be. Id. at 291.

In Broadcast Music, Inc. v. Grant's Cabin, Inc., 204 U.S.P.Q. 633 (E.D. Mo. 1979), plaintiff Broadcast Music, Inc. ("BMI") sued Grant's Cabin for infringement of copyrighted music by unauthorized performance. Grant's Cabin raised the defense of copyright misuse. Id. at 634. The court struck the defense, stating that "[a]n allegation that a plaintiff has violated the antitrust laws has been found to be an insufficient defense to a claim of copyright infringement." Id.

On the other hand, some courts have recognized the

defense of copyright misuse and have applied it to deny relief for copyright infringement. These cases also suggest that activity need not violate the antitrust laws to constitute copyright misuse.

In Tempo Music, Inc. v. Myers, 407 F.2d 503 (4th Cir. 1969), plaintiff Tempo Music sued Myers, a supper club owner, for copyright infringement based on the unauthorized performance of copyrighted songs. The court held that the copyrights had been infringed, but that the plaintiff's recovery was barred because the plaintiff's agent, ASCAP, had acted in violation of an antitrust consent decree. Id. at 507.

In F.E.L. Publications, Ltd. v. Catholic Bishop of Chicago, 506 F. Supp. 1127 (N.D. Ill. 1981) rev'd, 214 U.S.P.Q. 409 (7th Cir.), cert. den., 459 U.S. 859 (1982), the court again upheld the defense of copyright misuse. The plaintiff was the owner of copyrights to musical compositions that were performed and reproduced for distribution by the defendant church group, in violation of the plaintiff's copyrights. The district court held, however, that the plaintiff had attempted wrongly to extend the scope of its copyrights by licensing rights to use the copyrighted material in nonprofit performances, for which the defendant was not legally obligated to obtain a license. There was no suggestion that this misuse violated the antitrust laws. Nonetheless the court held that the copyrights were unenforceable against the defendants.

On appeal, the Seventh Circuit reversed, finding that the copyright owner had not licensed its copyrighted material for use in exempt performances. The court reiterated, though, that "it is copyright misuse to exact a fee for the use of a musical work which is already in the public domain The question in this case is whether F.E.L. has extended its copyright beyond the strict boundaries of the conferring statute." 214 U.S.P.Q. at 413 n.9 (citations omitted). The court stated that there was no evidence of unlawful extension, and noted that in any event, "Dismissal of a copyright claim for misuse is an equitable defense which requires a balancing of equities. We think that in this case, the scales are tipped in F.E.L.'s favor." Id.

The Catholic Bishop court's indication that activity need not violate the antitrust laws to constitute copyright misuse is consistent with the language of the court in Broadcast Music, Inc. v. Moorlaw, Inc., 527 F. Supp. 758 (D. Del. 1981), aff'd without opinion, 691 F.2d 490, 691 F.2d 491 (3d Cir. 1982). In Moorlaw, BMI sued the "Triple Nickel Saloon" and additional defendants for unauthorized performance of several songs, copyrights to which were held by BMI. The defendants asserted as separate affirmative defenses violation of the antitrust laws and copyright misuse. The court found that the plaintiffs had not violated the antitrust laws, but continued: "Regardless of whether various aspects of BMI's current pricing system constitute restraints of trade objectionable under the antitrust laws, they are also subject to scrutiny under the copyright misuse doctrine." Id. at 772. The court noted in a footnote that "Copyright misuse and antitrust analysis in this area are not necessarily coextensive." Id. at 772 n.24. The court cited patent misuse precedent in support of this proposition and followed patent misuse analysis in reaching its decision that the challenged activity was not

an effort to extend unlawfully the scope of the copyrights. *Id.* at 773.

As the cases indicate, there may be a trend toward recognition of the defense of copyright misuse. See also Comment, *Copyright Misuse and Cable TV*, 35 Fed. Comm. L.J. 347, 355 (1983). Yet it is not clear what is necessary to support a finding of copyright misuse. Some cases suggest that activity must violate the antitrust laws to constitute copyright misuse; some cases suggest that the activity in question need not violate the antitrust laws. The standard remains uncertain. And, as discussed earlier, some cases refuse to recognize the copyright misuse doctrine at all.

This lack of clarity of the law of copyright misuse calls for legislative reform. The unclear and inconsistent law creates uncertainty for producers of copyrighted materials, subjecting them to risk that hinders the development and marketing of new technologies. A producer may well be reluctant to market a new idea or technology when doing so creates an uncertain risk of the copyrights' being declared unenforceable. The unclear law, therefore, discourages copyright licensing and hinders the distribution and exploitation of intellectual property, particularly computer software, which relies largely on copyright protection. This effect is contrary to the intent of the copyright laws and to the intent of the proposed revisions to intellectual property law now before Congress.

3. Copyright Misuse and Patent Misuse Are Parallel and Interconnected Doctrines; They Require Parallel Reform.

Courts have developed the doctrine of copyright misuse through analogy to the prior doctrine of patent misuse. See discussion above; see also 3 Nimmer, *The Law of Copyright* § 1309[B], at 13-144 (1986); E. Kintner & J. Lahr, *Intellectual Property Law Primer* 451 (1982). Courts have relied heavily on patent misuse decisions in their holdings on the misuse issue in copyright infringement cases. See, e.g., *Broadcast Music, Inc. v. Moor-Law, Inc.*, 527 F. Supp. 758, 772-73 (D. Del. 1981); *Orth-O Vision v. Home Box Office*, 474 F. Supp. 672, 686 (S.D.N.Y. 1979).

Legislative reform of patent misuse law without reform of copyright misuse law may be seen as inconsistent with the close analogies courts have drawn between patent and copyright misuse in the past, and could thrust the law of copyright misuse into a period of still greater uncertainty. Reform of patent misuse alone might present the courts with the difficult question whether to continue to apply copyright misuse law as it currently exists, although the patent misuse cases upon which the doctrine is based will have been largely superceded by statute. Rather than plunge the law into such additional uncertainty, Congress should directly address the issue of copyright misuse. It should provide for reform of the copyright misuse doctrine parallel to reform of the patent misuse doctrine.

4. Copyrights Have Limited Potential for Misuse: Copyright Misuse Law Should Require a Showing of Greater Anticompetitive Impact.

A copyright provides protection only against actual copying of the copyrighted material. It provides no protection against independent discovery. *Mazer v. Stein*, 347 U.S. 201, 217-18 (1953). Rights afforded by a copyright are, therefore, more limited than those afforded by a

patent, which protects against independently developed as well as copying production or use and has no "fair use" or other exceptions. Compare 17 U.S.C. §§ 106-18, 501 with 35 U.S.C. §§ 102, 271(a).

As Judge, previously Professor, Posner stated in *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, No. 86-1397, (7th Cir. April 14, 1987) (LEXIS, Genfed Library, Dist. file) (p. 9-11), "a copyright, even more than a patent, is a legal rather than necessarily an economic monopoly. It forbids copying the copyrighted work without the copyright holder's permission, but it does not forbid the making of close substitutes. So long as the second comer creates a work that is not substantially similar to the copyrighted features of, the first work, there is no infringement." Posner continues:

"Noting the convergence of patent-misuse principles with antitrust principles, we said in *USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 512 (7th Cir. 1982): 'If misuse claims are not tested by conventional antitrust principles, by what principles shall they be tested? Our law is not rich in alternative concepts of monopolistic abuse; and it is rather late in the date to try to develop one without in the process subjecting the rights of patent holders to debilitating uncertainty.' This point applies with even greater force to copyright misuse, where the danger of monopoly is less."

Because the potential scope of copyright misuse is less than the potential scope of patent misuse, courts have understandably been more reluctant to find that allegedly anticompetitive conduct renders a copyright unenforceable. See 3 Nimmer, *The Law of Copyright* § 1309[A], at 13-143 (1986) (courts denying defense of copyright misuse "have rested at least in part upon the limited nature" of copyright protection). At the same time, the arguments for reform of patent misuse law apply even more forcefully to limiting the doctrine of copyright misuse law. Roger B. Andewelt noted in his Remarks on Patent Misuse Before the Bar Association for the District of Columbia on November 1, 1982, that the effect of the cases on patent misuse is "to treat market power derived from patents more harshly than market power derived from other lawful means . . . the cases provide no satisfactory explanation as to why the public would benefit from such harsher treatment for market power derived through patents."

Given the lesser protection and therefore lesser market power that copyrights provide, it is even less clear why copyrights should be vulnerable to harsher treatment than both patents and other products. To the contrary, copyright holders have limited rights that freely allow competitors to develop competing and even identical products. That, no doubt, is why some courts refuse to accord the copyright misuse doctrine full recognition. The law of copyright misuse, therefore, should be reformed to end discrimination against a copyright holder's limited rights and better to fulfill the broad objectives of copyright protection.

5. Need for Reform to Protect Copyright Holders against Unjustified Allegations of Misuse.

The rapidly changing nature of today's technology makes a copyright holder particularly vulnerable to unfounded charges of copyright misuse. Even an unfounded defense of

copyright misuse shifts the focus of litigation from the defendant's to the plaintiff's activity and delays the plaintiff's relief against the defendant. See 4 Callman, Unfair Competition § 22.17, at 89 (4th ed. 1981) ("A collateral attack on plaintiff's conduct is an inviting defense. The accused becomes the accuser, and effectively diverts the court's attention from the merits of the plaintiff's cause of action . . ."). Because of the pace at which technological advances are made, particularly in the important field of computer software, a copyright's real term is limited to the period of its market competitiveness. A copyright can well become obsolete during the course of drawn-out litigation. An infringer who is able to continue using the copyrighted material throughout the course of litigation may thus deprive the copyright owner of his exclusive rights during the only time when those rights are of any real value.

Failure to address the issue of copyright misuse legislatively could encourage such tactics by suggesting that the low showing of anticompetitive effect required in patent misuse cases will sustain a claim of copyright misuse. Legislative reform of the law of copyright misuse could, on the other hand, discourage such tactics by requiring that a claim of copyright misuse be supported by a showing of conduct violative of the antitrust laws.

6. Failure to Address Copyright Misuse, While Clarifying Application of The Patent Misuse Doctrine, Could Encourage Development of a Harsher Judicial Attitude Towards Copyright Owners.

Should Congress, having had before it earlier proposals to deal with copyright as well as patent misuse, clarify application of the patent misuse doctrine but not address copyright misuse, courts may appropriately infer that Congress intended a different, harsher standard to apply to copyright abuse. This result would be particularly ironic in light of the above discussion regarding the nature of copyrights and prior judicial reluctance to find copyright misuse to be a defense to an infringement action.

To the extent that there may be fear that legislation addressing copyright misuse will provide a foundation for application of that doctrine in cases where it would otherwise not have been applied -- that is, even where an antitrust violation was in fact found -- Congress can make clear its intent that the legislation does not expand the misuse defense or create new ones (as might be argued if mask works were covered). In the end, a stronger argument can probably be made for recognizing copyright misuse as a defense only where the owner is guilty of an antitrust violation than can be made for risking expansion and entrenchment of the copyright misuse doctrine.

If Congress declines to address reform of the copyright misuse doctrine because of the undeveloped nature of that doctrine, it should make clear that it does not thereby intend the doctrine to be applied without limitation. Rather, legislative history should plainly state that, since copyright misuse evolved from patent misuse, to the extent Congress limits patent misuse it intends copyright misuse, if applied by a court, to be correspondingly limited.

May 11, 1987

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